



## SWAY OF MSMEs ON SUSTAINABILITY OF INDIAN ECONOMIC CLIMATE

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### Abstract:

Micro Small and Medium Enterprises (MSMEs) constitute over 90 percent 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 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. Indeed, it takes an impregnable contribution in reducing regional imbalances, assuring more equitable distribution of national income and wealth. Despite the significant contributions of them MSME sector, the sector continues to face certain constraints. Those constraints pose bigger threats for them in serving its function for the development of economy. This paper deeply explores three themes namely; Challenges the industry faces in the current scenario, Performance of MSMEs in hauling up the Indian economy, and the attainment of projection in terms of its growth.

**Key Words:** SSI, MSMEs, Generation of Employment, Production & GDP and Export

### Introduction:

India today has reached that stage of the demographic transition wherein the majority of population is in the economically active age group, commonly referred to as the *Demographic Dividend*. For India to tap this dividend it is necessary that the economy is able to generate enough job opportunities to productively absorb this economically active population (Sunita and Srija, 2016). Commentators today celebrate the ubiquitous Indian attitude of creative improvisation, calling on initiative, quick thinking, and to quickly fulfill market demands at the lowest possible prices. As an entrepreneurial trait, that has been as much a part of everyday Indian living as its rich tradition of way of life. Micro Small and Medium Enterprises (MSMEs) in India are far more encompassing and far reaching than developed countries, and could therefore be far more multifaceted, for there is so much more that needs to be done. The salience of MSMEs has been intensified in recent times, particularly with the rise in knowledge-intensive services. New entrepreneurs who do not belong to traditional business communities have begun to emerge in large numbers. As per the Ministry of Corporate affairs (2016), about 98,473 new companies were incorporated in India during the year 2015-16. India has a very large number of micro and small enterprises across various sectors. The massive emergence of enterprises necessitates analyzing the changes and contribution of MSMEs in Indian economy.

### Methodology:

The present study is based on secondary data. They were collected from the annual reports of MSMEs and RBI Bulletin. The study covers a period of 21 years from 1995 to 2016. Four parameters namely; number of units, production, employment, and export have been used for analyzing the performance of MSMEs. The primary objective of the study is to analyze the performance of the sector and its effective contribution to the economic growth. The tools like Growth rate, Average Annual Growth Rate (AAGR), Compounded Annual Growth Rate (CAGR), Linear Trend, and Polynomial Trends were used for the analysis.

### Glimpse of MSMEs in India:

The term 'MSME' is widely used to describe small businesses in the private sector. Regulators and financial institutions across the world use parameters such as employee strength, annual sales, value of fixed assets, and loan size proxies to define the sector in the context of finance. The Micro, Small and Medium Enterprise Development Act 2006 (MSMED Act) of the Government of India provides the definition and broadly segments the MSME sector in the following manner

Manufacturing Enterprises - Investment in Plant and Machinery		
Description	INR	USD (\$)
Micro Enterprises	Up to Rs.25 Lakhs	Up to \$ 62,500
Small Enterprises	Rs 25 Lakhs to Rs. 5 Crores	\$ 62,500 to 1.25 million
Medium Enterprises	Rs. 5 Crores to 10 Crores	\$ 1.25 million to \$ 2.5 million

The post-independence the policy focus of increased public investment in heavy industries and setting up of Power Supply Units (PSU) did not offer an idyllic environment for entrepreneurship. The major setbacks faced by Indian entrepreneurs were lack of mentoring facilities, technology support or accessibility to the credit. Startup Outlook Report of India (2016) says that 97 percent of all companies want to hire but 75 percent felt

that the Indian education system was not preparing future employees with the required skills. Although different Reports on employment emphasized the need for promote entrepreneurship as means of self-employment, entrepreneurship did not rise up. To mention a few, in the S.P Gupta “Special Group Report on Targeting 10 million Employment Opportunities per year” (2002) recommended “appropriate programmes should be launched to increase entrepreneurial capabilities and skill for self-employment.” The Montek Singh Ahluwalia “Report of the Task Force on Employment Opportunities”, July 2001 also mentions about developing entrepreneurship ability among the newly self-employed. The Report even recommends entrepreneurship training for the informal sector. Indeed, “A large part of the employment generated by the economy will be self-employment in the informal sector. These self-employed entrepreneurs need training of the multi-skill variety, going beyond production skills to include marketing, finance and accounting and elementary management. However, entrepreneurship in India has been confined to being own-account workers with one or more helpers and did not expand in size beyond that. As may be seen from the Fifth Economic Census 2005, 95 percent of establishments were engaging not more than five workers and they accounted for almost 64 percent of the employment. To promote self-employment as a means of job-creation and to promote entrepreneurship for further job creation, the MSME Act, 2006 was enacted to facilitate the promotion, development and enhancing the competitiveness of these enterprises. Earlier to that the small scale industries (SSIs) were regulated by two sections of the Industries (Development & Regulation) Act, 1951 which led to absence of an institutional regulatory and consultative mechanism to capture and guide the progress of an SSI unit from being a micro unit to a small scale and eventually to medium scale one. The earlier Act also excluded the fast emerging service sector. But even after the implementation of the MSME Act, 2006 the high proportion of unregistered MSME units outside the purview of the Act is a matter of concern.

**Challenges before MSMEs in India:**

The problems offsetting small scale industries can broadly be divided in two major groups- internal and external. Internal problems are mainly crop up from within the industry and can be controlled internally. External problems on the other hand, are the outcome of external factors and are beyond the control of a particular unit. Most of the internal problems coupled with external problems put a major threat to the smooth functioning of the MSME units. A few internal problems of small scale industrial units are;

Most of the small scale industries belong to individual proprietorship form of organization. The owners come with personal egos and ideas, proprietarily attitudes and ineffective delegation; To a large extent the development of the units depends on the attitude, audacity and spirit of the owners which in turn influenced by personal and family requirements; There is a lack of expertise, professionalism and planning and the dealings are informal; The emphasis is on short term gain even at the cost of quality; There is no logical reasoning, proper career plan and strong motivation; Pay scales are generally lower, goodwill and job security is absent; In many cases, business ideas and exposures are not up-to-date and adequate, rules and regulations are not complied, product and market knowledge are not up to the mark and business remains confined to the local level. Some of the major external problems of MSMEs are mostly related to financial support and investment promotion; consultancy and counseling services; quality control, market promotion, testing, scientific research and development facilities; entrepreneurship development, training and skill formation; technology development and applications; infrastructure development; establishment of linkages between various industries and other sectors of the economy; information collection and dissemination of technology.

**Employment Generation through MSMEs:**

The small scale sector has emerged as a highly vibrant and dynamic sector of the Indian economy over last five decades. It not only plays crucial role in providing large employment opportunities at comparatively lower capital cost than large industries, but also helps in industrialization of rural and backward areas, thereby reducing regional imbalances, assuring more equitable distribution of national income and wealth (Uma, 2014). It implies that it is playing a vital role in pushing the economy up on the ladder. MSMEs have to play a significant role because of the employment opportunities they generate if India is to see truly inclusive growth. This, in turn, will increase consumption demand. A credible credit rating improves the ability of MSMEs to access formal finance, which is vital to their plans to invest in growth (Manish, 2016). Hence, this has become vital to analyse the performance of SSIs in generating employment which could notably alleviate poverty.

Table 1: No. of MSMEs in India and Its Contribution in Generating Employment

(Figures in Crores)

Year	No. of MSMEs	Growth Rate	MSMEs Employment	Growth in Employment (%)	Total Employment	Contribution (%)
2000 – 01	1.011	-	2.391	-	27.754	08.61
2001 – 02	1.052	04.06	2.491	04.18	27.333	09.11
2002 – 03	1.095	04.09	2.614	04.94	27.000	09.68
2003 – 04	1.140	04.11	2.714	03.83	26.443	10.26
2004 – 05	1.186	04.04	2.824	04.05	26.459	10.67
2005 – 06	1.234	04.05	2.949	04.43	26.993	10.93

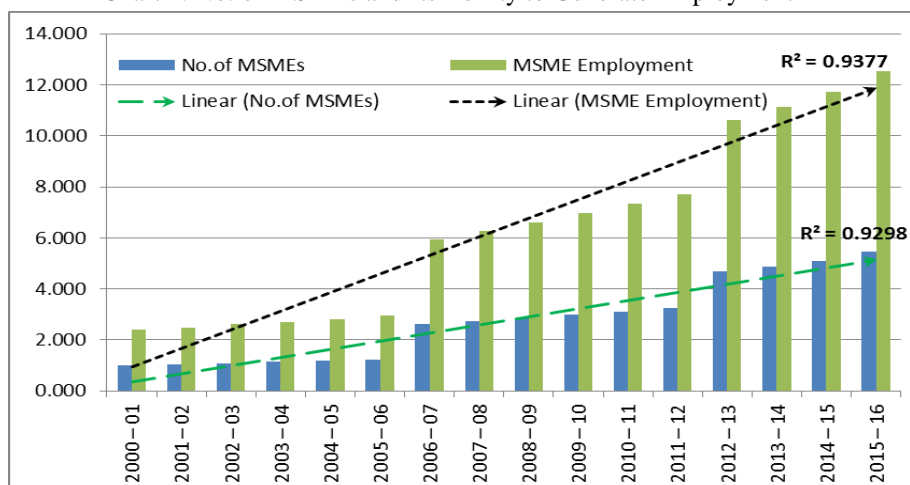
2006 – 07	2.611	111.59	5.957	102.00	27.276	21.84
2007 – 08	2.728	04.48	6.264	05.15	27.549	22.74
2008 – 09	2.852	04.55	6.594	05.27	28.172	23.41
2009 – 10	2.981	04.52	6.954	05.46	28.708	24.22
2010 – 11	3.115	04.50	7.322	05.29	28.999	25.25
2011 – 12	3.256	04.53	7.713	05.34	29.650	26.01
^2012 – 13	4.675	43.58	10.614	37.61	29.964	35.42
^2013 – 14	4.886	04.51	11.143	04.98	30.722	36.27
^2014 – 15	5.106	04.50	11.713	05.12	30.786	38.05
^2015 – 16	5.470	07.13	12.524	06.92	30.868	40.57
<b>AAGR</b>	-	<b>*4.29%</b>	-	<b>*4.49%</b>	-	-
<b>CAGR</b>	<b>11.13%</b>	-	<b>10.90%</b>	-	<b>2.21%</b>	-
<b>Avg. Contr.</b>	-	-	-	-	-	<b>22.07%</b>

Note: \* AAGR calculated excluding the conversion jump (2006-07) and the Projection data (from 2012)

^ Projected data - compiled by RBI Bulletin (Sep 2012).

The number of MSMEs has increased from 1.011crores to 5.470crores during the period of 2000 to 2016. The total number of MSMEs in the year 2006-07, has faced an abrupt hike of 111.51 percent growth from the stand of 4.05 percent owing to the conversion of SSI sphere into MSME premise. The MSME premise further includes activities of wholesale and retail trade, legal services, education, social service units, hotels, restaurants, transports, storage and warehousing (except cold storage). The data of MSMEs from 2012-13 express an intermittent surge, notably 43.58 percent of growth rate in the year 2012-13 owing to the divergence in projection. Excluding the divergence in projection and the conversional jumps, the growth rates of each year constitute 4.29 percent and 4.49 percent of Average Annual Growth Rate (AAGR) in number of MSME units and employment respectively. This average annual rate is quite obvious and identifiable by a fleeting look at the above table. Owing to the same reason, 2006-07 met 102 percent of hike in employment that comprises of medium scale industries which is likely to have more number of employees. About 3.83 percent of growth in employment in 2003-04, is the least growth among the years. The number of MSMEs and its employment constitute 11.13 percent and 10.90 percent of Compounded Annual Growth Rate (CAGR). The growth of total employment in the country seems to move at a crawling pace with the CAGR of 2.21 percent. MSMEs provide a remarkable contribution in generating employment that increased gradually from the base of 8.61 percent to 40.57 percent (2001 - 2006) without any setbacks on the row. The AAGR of its contribution is 22.07 percent which is almost one fourth of the total.

Chart 1: No. of MSMEs and Its Ability to Generate Employment



The number of MSMEs and its capacity to generate employment is outlined in the above chart. The number of MSMEs appears to face an upward trend in both pre and post-conversion period. That is further emphasized with the use of linear trend line ( $y = 0.3209x + 0.047$ ) with the reliability ( $R^2$ ) value of 0.9298. The MSME units are able to deliver a predominant support in generating employment that exceeds the growth of number of MSME units. The trend line for employments generated, serves the equation of,  $y = 0.7297x + 0.2212$  with the reliability ( $R^2$ ) value of 0.9377. Both the trend lines serve more than 0.92 reliability values which are more than sufficient to rely upon.

#### **MSMEs Performance in Production:**

In China, manufacturing industries contribute 36 percent of GDP. However, the manufacturing industries in India constitute only 25 percent to its GDP. The 'Make in India' initiatives are essentially to create the right environment for manufacturing sector to grow alongside scaling up exports and strengthening MSMEs

(Nirmala, 2015). Furthermore, it necessitates the top-notch product quality to stand for international exports at the same time there must be no negative effect on environment.

Table 2: Performance of MSMEs in Production and Its Contribution to GDP

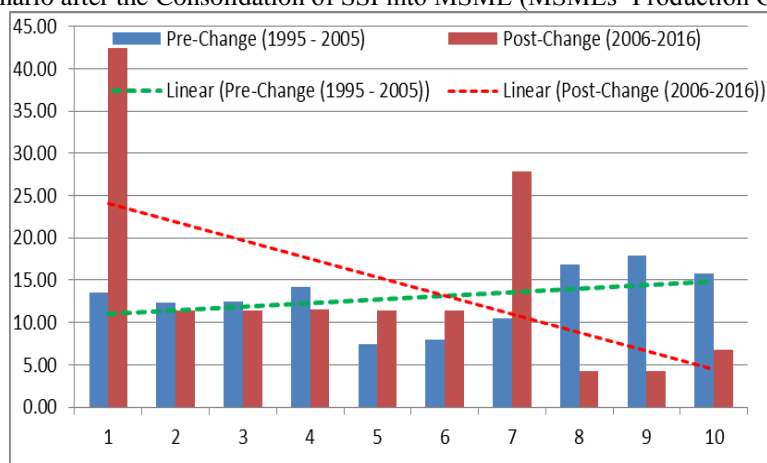
(Figures in Crores)

Years	MSME Production	Growth Rate (%)	Total GDP	Contribution of MSME (%)
1995 – 96	1,48,290	-	11,18,586	13.26
1996 – 97	1,68,413	13.57	13,01,788	12.94
1997 – 98	1,89,178	12.33	14,47,613	13.07
1998 – 99	2,12,901	12.54	16,68,739	12.76
1999 – 00	2,43,255	14.26	18,58,205	13.09
2000 – 01	2,61,289	07.41	20,00,743	13.06
2001 – 02	2,82,270	08.03	21,75,260	12.98
2002 – 03	3,11,993	10.53	23,43,864	13.31
2003 – 04	3,64,547	16.84	26,25,819	13.88
2004 – 05	4,29,796	17.90	29,71,464	14.46
2005 – 06	4,97,882	15.84	33,90,503	14.68
2006 – 07	7,09,398	42.48	39,53,276	17.94
2007 – 08	7,90,759	11.47	45,82,086	17.26
2008 – 09	8,80,805	11.39	53,03,567	16.61
2009 – 10	9,82,919	11.59	61,08,903	16.09
2010 – 11	10,95,758	11.48	72,48,860	15.12
2011 – 12	12,21,442	11.47	88,32,012	13.83
2012 – 13	15,61,143	27.81	92,80,803	16.82
2013 – 14	16,27,061	04.22	99,21,106	16.40
2014 – 15	16,95,626	04.21	1,06,43,983	15.93
2015 – 16	18,11,428	06.83	1,07,42,812	16.86
<b>AAGR</b>	<b>13.61%</b>		<b>12.09%</b>	-
<b>CAGR</b>	<b>12.66%</b>		<b>11.37 %</b>	-
<b>Avg. Contr.</b>	-		-	<b>14.78%</b>

Source: 1. Ministry of Micro, Small and Medium Enterprises (MSME), Govt. of India

2. Economic Survey Reports from 2000 to 2016.

Chart 2: Scenario after the Consolidation of SSI into MSME (MSMEs' Production Growth Rates)



A fleeting look at the table provides an apparent indication that the proficiency of MSMEs in production has significantly increased with the Compounded Annual Growth Rate (CAGR) of 12.66 percent. The value of its production touches an impressive breakthrough of Rs.18,11,428 crores (2015-16) which is 12.22 times greater than the production value of 1995-96. Data from 2006 – 07 seem to express a sporadic spike in every spheres of MSMEs as the activities of wholesale and retail trade, legal services, education and social service units, hotel and restaurant, transport, storage, and warehousing (except cold storage) have been combined with SSIs. As a result of this alteration, the data show a drastic and an inconsistent growth rate of 42.48 percent in the year 2006-07. In presence of the same reason the contribution of MSMEs' production to GDP results to 17.94 percent. These rates are the highest in both the realms. The year 2012-13 witnessed the second largest growth rate of 27.81 percent in production and it did not route to the considerable growth rates thereafter. The growth of MSMEs' production started to scuttle with meagre growth rates since 2012-13.

Though, there were some uneven hikes and precipitous declines in the growth rate, they were compatible enough to gain 13.61 percent of Average Annual Growth Rate (AAGR). The Gross Domestic Product (GDP) of India increased gradually since 1995 till 2016 with 12.09 percent and 11.37 percent of AAGR and CAGR respectively. MSMEs have been delivering a parallel amount of contributions in line with the growth of GDP. The contributions till 2005-06 were quite consistent and it has peaked at 17.94 percent in the year 2006-07. It started facing gradual decrease afterwards and came down from its pace to 13.83 percent in 2011- 12. In the next year (2012-13) it leaped over 16.82 percent and that remains just about consistent thereon. However, MSMEs are proficient enough to produce products that serve substantial contribution of 14.78 percent on an average from 1995 to 2016. The consequence after the consolidation of SSI into MSME is depicted in the above chart which is further supported with the support of trendline. The years post-change (2006 – 2016) seem to have inconsistent and notably less growth than the pre-change state. The growth rates of pre-change situation are pretty unswerving. However, the conversion is likely to have undesired change on MSMEs’ growth rate.

**MSMEs Performance in Export:**

Small scale enterprises in general face a lot of tribulations including availability of raw materials at competitive prices, owing to their low off-take as well as their inability to hold large inventories, adequate and timely financing from banks and other financial institutions as well as problem relating to various other factors such as access to latest technological developments, improved logistics, ever increasing interest rates, frequent break down in power supply, low voltages, perpetual increase in the prices of fuel and furnaces oil and the like. In nutshell, the cost of production of the items is bound to be much more for small scale sectors.

Constraints in export of finished goods to countries like China, Venezuela, and the UAE are highly subsidized by respective origination countries. Whereas no such support is available to small scale industries in India and therefore the cost of supplies from small scale enterprises is higher as compare to those emanating from above mentioned foreign countries (Pramod, 2015).

Table 3: MSMEs’ Export and Its Contribution to the Total Export

(Figures in Crores)

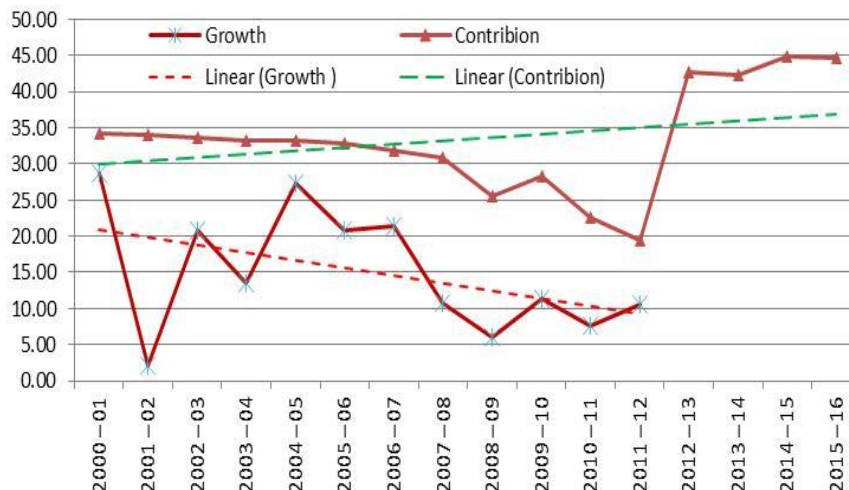
<b>Years</b>	<b>MSME ( Exports)</b>	<b>Growth</b>	<b>Total Exports</b>	<b>Contribution</b>
2000 – 01	69,797	-	2,03,571.01	34.29
2001 – 02	71,244	02.07	2,09,017.97	34.09
2002 – 03	86,013	20.73	2,55,137.27	33.71
2003 – 04	97,644	13.52	2,93,366.74	33.28
2004 – 05	1,24,417	27.42	3,75,339.52	33.15
2005 – 06	1,50,242	20.76	4,56,417.86	32.92
2006 – 07	1,82,538	21.50	5,71,779.28	31.92
2007 – 08	2,02,017	10.67	6,55,863.52	30.80
2008 – 09	2,14,387	06.12	8,40,755.05	25.50
2009 – 10	2,38,752	11.36	8,45,533.64	28.24
2010 – 11	2,56,834	07.57	11,36,964.26	22.59
2011 – 12	2,83,847	10.52	14,65,959.40	19.36
2012 – 13	6,98,166	145.97	16,34,318.29	42.72
2013 – 14	8,06,878	15.57	19,05,011.08	42.36
2014 – 15	8,49,248	05.25	18,96,348.41	44.78
2015 – 16	8,55,352	00.72	19,13,037.53	44.71
<b>AAGR</b>	-	<b>21.78%</b>	-	-
<b>CAGR</b>	<b>16.96%</b>	-	<b>15.03%</b>	-
<b>Avg. Contr.</b>	-	-	-	<b>33.70</b>

Source: 1. Ministry of Micro, Small and Medium Enterprises (MSME), Govt. of India  
 2. Economic Survey Reports from 2000 to 2016.

The MSMEs’ export has drastically grown up from Rs.69,797 crores to Rs.855,352 crores over the period. The data from 2012-13 are projected and it expresses a patchy jump of 145.97 percent in MSMEs’ growth in the year 2012-13 owing to the divergence in projection. The growth rates of MSMEs’ export were inconsistent over the period which fluctuated in greater degrees. Astonishingly, the conversion of SSI into MSME does not yield to an impressive result in export and it met 21.50 percent of growth. 27.42 percent of growth is noted in the year 2004-05 which remains the highest growth rates ever recorded during the period. 2.07 percent of growth in 2001-02 remains the least recorded leaving the projected data from the row. The pre-conversion period seems to serve a better result that is 18.88 percent of AAGR than the post-conversion period AAGR of 11.29 (excluding the projection). However, MSMEs export records show a substantial CAGR of 16.96 percent. The total export of the country is facing a balanced uptrend with the CAGR of 15.03 percent. The total export value for 2005-16 was 1,913,037.53crores which is literally ten times larger than 203,571.01crores in the year 2000-01. The total export has come down to 1,896,348.41crores from

1,905,011.08 crores and that amounts 0.45 percent of decline. The total export for the year 2010-2011 attained the maximum growth of 34.47 percent during the period. The contribution of MSMEs to the total export was pretty consistent and it continuously serves 33.70 percent on an average. There is a plodding decline in the growth contribution of MSMEs to the total exports since 2000 to 2009 (34.29 percent to 25.50 percent). Though there were some uneven hikes and declines, MSMEs provide an unswerving contribution to the total export of the country. About 19.36 percent of contribution in the year 2011-12 was the least contribution it ever made.

Chart 3: MSMEs Growth Rate and its Contribution to the Total Export



The contribution of MSMEs to the total export is portrayed in the chart 3. It shows the contribution of MSMEs export to the total faced a plodding decline till 2012 and started to bounce back thereafter. The polynomial trend line is used at the degrees of six to exhibit the prevailing condition. It shows,  $y = -0.0003x^6 + 0.0112x^5 - 0.1714x^4 + 1.1675x^3 - 3.6299x^2 + 4.3964x + 32.671$  with the reliability ( $R^2$ ) of 0.7887 which is highly reliable as it exceeds the threshold  $R^2$  value of 0.60. The growth rate of MSMEs export is represented only till the period of 2012 excluding the projected data. The dotted line is the linear trend line that goes down from its pace indicating that the government has to have a serious consideration on it.

**Attainment of Projection:**

The SSI taxonomy has been transformed as Micro, Small and Medium Enterprises (MSMEs) after the enactment of MSME Development Act 2006 and predictions made about the future state of the sector. On a logical ground, it is accepted that predictions may fall apart from actual. On the other hand, it is an indication to investigate when it causes a greater degree of variation. Table 4 explores the amount of variation the elements namely, MSME units, Employment, and Production has faced over these years.

Table 4: Comparison between the projected and actual data from 2006 to 2012

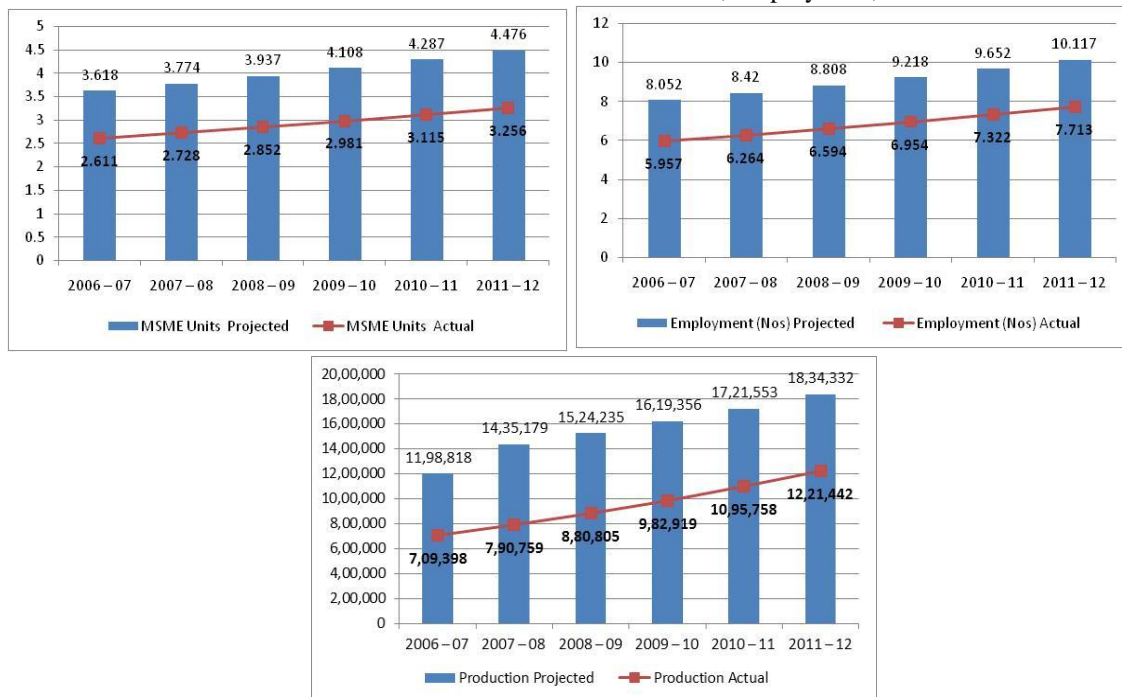
(Figures in Crores)

Year	MSMEs			Employment (Nos)			Production (Amount)		
	Projected	Actual	% of Diff.	Projected	Actual	% of Diff.	Projected	Actual	% of Diff.
2006 – 07	3.618	2.611	32.33	8.052	5.957	29.91	11,98,818	7,09,398	51.30
2007 – 08	3.774	2.728	32.17	8.420	6.264	29.37	14,35,179	7,90,759	57.90
2008 – 09	3.937	2.852	31.96	8.808	6.594	28.75	15,24,235	8,80,805	53.51
2009 – 10	4.108	2.981	31.80	9.218	6.954	28.00	16,19,356	9,82,919	48.91
2010 – 11	4.287	3.115	31.67	9.652	7.322	27.45	17,21,553	10,95,758	44.42
2011 – 12	4.476	3.256	31.56	10.117	7.713	26.97	18,34,332	12,21,442	40.11

Source: MSME Reports, RBI Bulletin

The number of MSME units projected for the year 2006-07 gets 32.33 percent of difference and gradually it comes down to 31.56 percent in the year 2011-12. Though the MSMEs were expected to generate 8.052 crores of employment opportunities in the year 2006-07, it faced 29.91 percent of deviation from the attainment. However, it started to come down to 26.97 percent in the year 2011-12. Similarly, the same situation occurs with production as well. The difference between projected and the actual was 51.30 percent in the year 2006-01 and it settled at 40.11 percent in 2011-12. Comparatively the pace of adjusting with the variation in production was quite quick than the other elements. However, the average variation (49.36 percent) in production was quite high. The other elements namely, MSME units and employment data get 31.92 percent and 28.41 percent of average variation respectively.

Chart 4: Deviation encountered in the fields of MSME Units, Employment, and Production



The differences between projected and actual have been portrayed in the above chart. The data projected for production face larger deviation than the rest. The high-low lines exhibit the area of differences between the data. All the elements seem to share a common behaviour of growing simultaneously along with same growth rates.

**Conclusion:**

MSMEs deliver an unswerving support to the economy through contributing a substantial amount of employment, production and exports. With its agility and dynamism, the sector has shown sustainable growth and adaptability to survive the recent economic conditions. However, it has been pulled down from its pace by the daunting challenges and legal constraints. To inspire more confidence among the demographic dividend, the government needs to strengthen the legal structure and establish credible redressal mechanisms. The increased number of units in MSMEs could yield a considerable amount of employment in the country. The contribution of MSMEs to the total employment is mounting gradually more than 35 percent and shows a good indication of better prospect with this set-up. Surprisingly, MSMEs are compatible enough to steadily constitute to GDP yet it packed up with uneven hikes and precipitous declines in its production. Moving on to the export, it constantly contributes one third of export annually though there were some major fluctuations in its growth cyclically. The intricacies of economic policies have let to the deviations from the expected growth. The growth of MSMEs in India is likely to trudge back through 12<sup>th</sup> five years plan and ‘Make in India’ policy which exclusively concentrate on MSMEs.

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