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## GROWTH & PERFORMANCE OF MICRO, SMALL & MEDIUM ENTERPRISES (MSMEs) IN INDIAN ECONOMY

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### ABSTRACT

*Micro, Small and Medium Enterprises (MSMEs) play a catalytic role in the development process of any nation including India where millions of people are unemployed or underemployed & facing the problems of poverty & unemployment. MSMEs are providing immediate large-scale employment, with lower investments and prove to be a second largest manpower employer, after agriculture and occupy a position of prominence in Indian economy. Keeping in above backdrop, the present paper is an modest attempt to analyze the growth and performance of MSME in India. The study confirms that the significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to gross domestic product (GDP), employment and exports in Indian economy. Therefore, we should encourage MSMEs to take proper care of Indian economy with concrete plan of action and its honest implementation.*

**Key words:** MSME, GDP, Inclusive Growth, Indian economy

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## INTRODUCTION

The Micro, Small & Medium enterprises (MSMEs) has often been termed as ‘engine of growth’ for all developing economies including India. MSMEs are one of the most vital sectors of any economy in general and India in particular in ensuring equitable, inclusive & employment friendly economic growth. MSMEs have been playing a momentous role in overall economic development of a country like India where millions of people are unemployed or underemployed. This sector solves the many problems viz. poverty & unemployment through providing immediate large-scale employment, with lower investments and proves to be a second largest manpower employer, after agriculture. And this sector occupies a position of prominence in Indian economy, contributing to more than fifty per cent industrial production in value accumulation terms. In this regard, Prime Minister Dr. Manmohan Singh stated, “the key to our success in employment lies in the success of manufacturing in the small scale sector”. MSMEs play very important role in socio-economic development of Indian economy on account of their inherent advantages like low capital requirement, high employment generation, decentralization of industrial activity, utilization of locally available resources and widening of entrepreneurial base. MSMEs have a place of pride in Indian economy. The growth rate recorded by this sector has normally been higher than that of the industrial sector as a whole. The small scale industrial sector has emerged over five decades as a highly vibrant and dynamic sector of the Indian economy. MSMEs has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification. The employment generating potential of this sector reveals its aptness for labour surplus economy like India.

Keeping in above backdrop, the present paper has been organized as follows: Section II is dedicated on review of literature. Section III highlights the sources of data. Section IV makes an analysis of growth and performance of micro, small & medium enterprises in Indian economy. Section V describes the challenges faced by MSMEs and lastly, Section VI concludes the study with policy implications.

## LITERATURE REVIEW

The comprehensive literature demonstrates that MSMEs are necessary for sustained economic growth and development of any economy including India. To justify the need of present study, following literature has been reviewed:

**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 cointegration 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.

**Garg, I & Walia, Suraj (2012)** stated that the significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to gross domestic product (GDP), employment and exports in Indian economy.

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**DATA SOURCE**

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 2010-11. To examine the performance of MSMEs in India, the available data have been processed and presented in the form of suitable tables.

**GROWTH & PERFORMANCE OF MSMEs IN INDIA**

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 of 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**

<b>MANUFACTURING ENTERPRISES</b>	
<b>Enterprises</b>	<b>Investment in Plant &amp; Machinery</b>
<b>Micro</b>	Upto Rs. 25 lakhs
<b>Small</b>	More than Rs. 25 lakhs and upto Rs. 5 crores
<b>Medium</b>	More than Rs. 5 crores and upto Rs. 10 crores
<b>SERVICE ENTERPRISES</b>	
<b>Enterprises</b>	<b>Investment in Equipments</b>
<b>Micro</b>	Upto Rs. 10 lakhs
<b>Small</b>	More than Rs. 10 lakhs and upto Rs. 2 crores
<b>Medium</b>	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, 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. MSMEs are producing wide range of products, from simple traditional crafts and consumer goods to highly sophisticated products like micro-processors, mini computers, 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**

<b>Year</b>	<b>Total MSMEs (In lakh )</b>	<b>Fixed Investment (Rs. crore)</b>	<b>Production (Rs. crore)</b>
<b>2001-02</b>	105.21	154349	282270
<b>2002-03</b>	109.49	162317	314850
<b>2003-04</b>	113.95	170219	364547
<b>2004-05</b>	118.59	178699	429796
<b>2005-06</b>	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. But, the annual rate of growth of MSMEs is not impressive over the period. 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 rate 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-a-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 Overall 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

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2008-09	N.A.	3.20
2009-10	N.A.	10.50
2010-11	N.A.	7.80

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**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 2002-03 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. Similarly, MSMEs play a major role in present export performance of India because about 45-50 per cent of the Indian exports are being contributed by this sector. The role of MSMEs in employment generation as well as in exports can be seen through following table 4

**TABLE 4: ROLE OF MSMEs IN EMPLOYMENT GENERATION & IN EXPORTS IN INDIA**

Year	Employment (lakh person)	Export (Rs. crore)
2001-02	249.33	71244
2002-03	260.21	86013
2003-04	271.42	97644
2004-05	282.57	124417
2005-06	294.91	150242
2006-07	595.66	182538
2007-08	626.34	202017
2008-09	659.35	N. A.
2009-10	695.38	N. A.
2010-11	732.17	N. A.
<b>CAGR</b>	<b>15.5%</b>	<b>20.1%</b>

Source: Ministry of MSMEs, Annual Report, 2011-12, GOI

The above table 4 clearly depicts the critical role of MSMEs in employment generation and in Indian exports during 2001-02 to 2010-11. The number of persons employed in this sector stood at 249.33 lakh in 2001-02 and reached to 732.17 lakh in 2010-11 at the CAGR of 15.5 per cent. Besides, the growth rate of employment achieved by this sector in 2006-07 was more than hundred per cent. Similarly, the contribution of MSMEs in exports is quite significant. The value of production exported by this sector has grown at the compound rate of 20.1 per cent over the period. However, export-oriented MSMEs are impacted from imminent global slowdown; as a result percentage increase in exports during 2007-08 was less in comparison to earlier five years.

MSMEs constitute an important and crucial segment of the industrial sector in Indian economy. By contributing to the overall growth of the gross domestic product, employment generation and exports, the sector is emerged as the engine of growth for Indian economy. The performance of MSMEs has a direct impact on the growth of overall economy. The contribution of MSMEs in total industrial production and gross domestic product is highlighted in the following table 5



**TABLE 5: CONTRIBUTION OF MSMEs IN GDP OF INDIA**

Year	Percentage Contribution of MSMEs at 1999-2000 prices in	
	Total industrial production	Gross Domestic Product (GDP)
2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

Source: Ministry of Micro, Small & Medium Enterprises, Annual Report, 2010-11, GOI

It can be witnessed from the table 5 that the contribution of the MSME sector to overall industrial production has increased from 39.12 per cent in 2001-02 to 44.86 per cent in 2008-09. Similarly, the contribution of the MSME sector to the gross domestic product (GDP) has increased from 5.77 per cent in 2001-02 to 8.72 per cent in 2008-09 which justifies the need for continuous efforts to sustain the progress of MSME sector.

### **CHALLENGES FACED BY MSMEs IN INDIAN ECONOMY**

Despite remarkable contribution in Indian economy, MSME Sector does not get the essential support from the governments, banks, financial institutions, which is a handicap in becoming more competitive in markets. There are many challenges faced by MSMEs, 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 red tapism and regulations.

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- 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 (iii) domestic economic reforms.

The cumulative impact of all these developments is a remarkable transformation of the economic environment in which MSMEs operate, implying that this sector has no option but to 'compete'.

## **CONCLUSIONS & POLICY IMPLICATIONS**

In nutshell, Micro, Small and Medium Enterprises (MSMEs) have emerged as an engine of growth in Indian economy. They have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, employment industrial production and exports. However, the most important contribution of this sector is towards employment generation which is second only to agriculture in India. The experiences of recent years shows that employment in agriculture sector has been declining as well as large industries are also experiencing jobless growth. In such a situation, the main responsibility for job creation rests with unorganized sector including small and medium enterprises and the service sector. To face the competition in the long run and to be economically viable, the MSME sector needs to improve its productivity and quality, reduce costs (given the higher qualities) and innovate. Government policy should promote MSMEs by helping them to increase their efficiency and competitiveness within a market driven economy. For this it is essential that these enterprises no longer follows a protectionary stance, as that has already been shown to be harmful to the sector. Undoubtedly the MSME sector has enormous potential, and is a crucial aspect of the Indian economy. However it is essential on the part of

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the government to take careful decisions and honest policy implementation to overcome the problems of MSME. A technologically vibrant, internationally competitive small and medium industry should be encouraged to emerge, to make a sustainable contribution to national income, employment and exports. It is imperative to take care of MSME sector to enable it to take care of the Indian economy.

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