



## Economic Reforms and Growth of Micro, Small and Medium Enterprises (MSMEs) In India

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**Abstract-**Micro, Small and Medium Enterprises (MSMEs) play an important role in India's industrial and economic development. As per the fourth census, conducted by the office of the Development Commissioner (Small Scale Industries) of the Government of India, there were 26 million Micro, Small and Medium Enterprises (MSMEs) in the country, which provided employment to about 60 million people, MSMEs contribute about 8 percent of the GDP of the country, about 45 percent of manufactured output and about 40 percent of exports. The present study examines the growth and performance of MSMEs in India since the inception of economic reforms in India. For the purpose of the study the required information relating to number of MSMEs units, labor employed, production and exports at all India level were compiled from various secondary sources like Economic Survey and of Annual Survey of Industries. The results of the study noted the positive and significant impact of globalization on the growth and performance of MSMEs in India.

**Keywords-** Economic Reforms and Government Policies

### I. INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment generation and exports of the country. Micro, Small and Medium Enterprises (MSMEs), including khadi and village/rural enterprises are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. It is estimated that in terms of value addition, this sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. Among the total working enterprises, micro, small and medium enterprises have the proportion of 94.94 per cent, 4.89 per cent and 0.17 per cent respectively. Moreover, there are around 12.34 million MSMEs, including 1.9 million registered MSMEs, spread out across the various states of India. These enterprises have significant role to play in generating additional employment opportunities particularly in the rural areas. It is important to note that most of these enterprises are informal in nature. One of the significant features of MSME sector in India is that the majority of the enterprises even outside agriculture are informal in nature. It is found that about 45.23 per cent of the MSME enterprises are located in the rural areas and remaining enterprises are performing in the urban areas. This sector is granted special importance by notifying reservation of items for exclusive manufacturing in the MSMEs sector. It is well known that MSMEs provide good opportunities for both self-employed and wage employment activities. Further, dispersal of MSMEs equally in all parts of the

country can help in removing regional inequalities and thereby help in solving a big social issue of bridging the gap between rich and poor.

The present paper studies the contribution of MSMEs by assessing the role, growth and performance of MSMEs in India during the period 1991-2011. Therefore, the broad objectives of the study are:

- i) To study the role, growth and significance of Micro, Small and Medium Enterprises in India during the period 1991 to 2010-11;
  - ii) To examine the impact of economic reforms on the growth performance of MSMEs in India;
  - iii) To examine the various policy initiatives taken by Government of India since the onset of economic reforms;
- The paper is organised as follow. The broad outline of the paper is as follow. After discussing the relevance and significance of MSMEs in India in Section I, Section II gives database and methodological issues. Section III presents the information on the role, growth and performance of MSMEs in India during the period of economic reforms. Section IV discusses problems and constraints facing by MSMEs under WTO regime. Section V concludes the study and brings out policy implications.

### II. DATABASE AND METHODOLOGY

The results of the study are primarily based on secondary data sources collected from MSMEs annual reports for various years published by Ministry of Micro, Small and Medium Enterprises (MMSMEs). The time series data for the period 1990-91 to 2013-14 have been collected for production, employment, exports contribution of MSME in India. Along with it concerned books, journal, governmental reports etc. have also been utilized to fulfill the desired objectives of the study.

### III. DEFINITION OF MSMEs IN INDIA

The definition of MSMEs in India has undergone substantial changes under the various policy regimes. In India, the enterprises have been classified broadly into two categories:

(i) Manufacturing; and (ii) Services.

Both of these categories of enterprises have been further decomposed into micro, small and medium enterprises on the basis of their investment in plant and machinery for manufacturing enterprises or on equipments in case of enterprises providing or rendering services. The present definition of enterprises based on this criterion is given in Table 1.

Table 1: Classification of MSMEs in India (MSME Development Act, 2006)

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

**Source:** Micro, Small and Medium Enterprises- An Overview, 2008-09. Definitions before 2nd October 2006

Classification	Investment Ceiling for Plant, Machinery or Equipments* <sup>@</sup>	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh (\$50 thousand)	Upto Rs.10 lakh (\$20 thousand)
Small	Above Rs.25 lakh (\$50 thousand) & — upto Rs.1 crore (\$0.20 million)	—
Medium	Not defined	Not defined

\* Excluding land and building.

<sup>@</sup> \$1 = Rs.50 (April 2009).

### Growth and Performance of MSMEs in India

The growth and performance of Micro, Small and Medium enterprises in India can be assessed by the number of MSMEs, employment generation, investment trends, production, and exports performance. Table 2 presents the time series data for absolute number of MSMEs in India along with the annual percentage change during the period under study.

Table 2: Number of MSMEs in India during the period 1990-91 to 2012-13

Sr. No.	Year	No. of units of MSMEs (in Lakh. Nos)	% Change in Annual Increase
1	1990-91	67.87	4.07
2	1991-92	70.63	4.07
3	1992-93	73.51	4.07
4	1993-94	76.49	4.07
5	1994-95	79.60	4.07
6	1995-96	82.84	4.07
7	1996-97	86.21	4.07
8	1997-98	89.71	4.07
9	1998-99	93.36	4.07
10	1999-2000	97.15	4.07
11	2000-01	101.1	4.07
12	2001-02	105.21	4.07
13	2002-03	109.49	4.07
14	2003-04	113.95	4.07
15	2004-05	118.59	4.07
16	2005-06	123.42	4.07
17	2006-07	361.76	193.11
18	2007-08	377.36	4.31
19	2008-09	393.70	4.33
20	2009-10	410.80	4.34
21	2010-11	428.73	4.36
22	2011-12	447.66	4.42
23	2012-13	467.56	4.45
<b>Average</b>		<b>190.29</b>	<b>12.37</b>

**Source:** MSMEs annual reports for various years. [www.msme.gov.in](http://www.msme.gov.in)

As per the data given in Table 2, the total number of MSMEs have increased from 67.87 lakh in 1990-91 to 101.1 lakh in 2000-2001, and from 105.21 in 2001-02 to 467.56 in 2012-13. The annual percentage change showed that MSMEs recorded an annual percentage increase of around 4 per cent, with year 2006-07 was an exception MSMEs noticed sharp rise to the tune of 193.11 per cent. It follows from the proceeding discussion that the process of globalization has put significant impact on the number of MSMEs in India.

Table 3: Trends in Employment pattern of MSME sector in India from 1990-91 to 2012-13

Sr. No.	Year	Employment (Lakh Persons)	% Change in Annual Increase
1	1990-91	158.34	-
2	1991-92	165.99	4.83
3	1992-93	174.84	5.33
4	1993-94	182.64	4.46
5	1994-95	191.4	4.80
6	1995-96	197.93	3.41
7	1996-97	205.86	4.006
8	1997-98	213.16	3.55
9	1998-99	220.55	3.47
10	1999-2000	229.1	3.88
11	2000-01	238.73	4.20
12	2001-02	249.33	4.44
13	2002-03	260.21	4.36
14	2003-04	271.42	4.31
15	2004-05	282.57	4.11
16	2005-06	294.91	4.37
17	2006-07	805.23	173.04
18	2007-08	842.00	4.57
19	2008-09	880.84	4.61
20	2009-10	921.79	4.65
21	2010-11	965.15	4.70
22	2011-12	1011.80	4.83
23	2012-13	1061.52	4.91
	<b>Average</b>	<b>435.88</b>	<b>12.038</b>

Source: MSMEs annual reports for various years and Reserve Bank of India.

It can be seen from Table 3 that total number of employed in MSME sector has increased from 158.34 lakh in 1990-91 to 238.73 lakh in 2000-01 and further to 1061.52 lakh in 2012-13. In net terms, employment indices have witnessed around seven fold increase during the period under evaluation. The annual percentage change of employment trends too has shown rising trends throughout the period of study.

Table 4: Production performance of MSME sector in India during the period 1990-91 to 2010-11

Sr. No.	Year	Production Current Prices (Rs Cr.)	% Change in Annual Increase	Production (1993-94 prices) (Rs Cr.)	% Change in Annual Increase
1	1990-91	78802	-	84728	-
2	1991-92	80615	2.30	87355	3.1
3	1992-93	84413	4.71	92246	5.6
4	1993-94	98796	17.04	98796	7.1
5	1994-95	122154	23.64	108774	10.1
6	1995-96	147712	20.92	121175	11.40
7	1996-97	167805	13.60	1234892	11.32
8	1997-98	187217	11.57	146263	8.43
9	1998-99	210454	12.41	157525	7.7
10	1999-2000	233760	11.07	170379	8.16
11	2000-01	261297	11.78	184401	8.23
12	2001-02	282270	8.03	195613	6.06
13	2002-03	314850	11.54	306771	56.83
14	2003-04	364547	15.78	336344	9.64
15	2004-05	429796	17.90	372938	10.88
16	2005-06	497842	15.83	418884	12.32
17	2006-07	709398	42.49	471663	12.60
18	2007-08	790759	11.47	471664	0.000212
19	2008-09	880805	11.39	N.A	N.A
20	2009-10	982919	11.59	N.A	N.A
21	2010-11	1095758	11.48	N.A	N.A
	<b>Average</b>	<b>415808</b>	<b>14.327</b>	<b>281133.9</b>	<b>11.14531</b>

Source: MSMEs annual reports for various years and Reserve Bank of India.

The results of production indices are given in Table 4. From the Table 4, the production figures increased to 471664 at constant prices in 2010-11 from 84728 in 1990-91. The annual percentage as shown much fluctuation for the production figures through the study period.

#### IV. PROBLEMS AND CONSTRAINTS FACE BY MSMES

Despite the sector's strategic importance in overall industrialization strategy and employment generation, as well as the opportunities that the Indian landscape presents, the MSME sector confronts several challenges. Technological obsolescence and financing problems have been associated with the sector since long. Also, constraints such as high cost of credit, low access to new technology, poor adaptability to changing trends, lack of access to international markets, lack skilled manpower inadequate infrastructure facilities including power water coordination between the Government, Industry and Academia. There is also a need to develop an alternate delivery channels through capacity building of the MSME Associations and the public-private partnerships in the institutional structure as also the schemes. Given the nature of the enterprises, there is a need to facilitate start-ups and evolve a time-bound exit mechanism. of manpower, facilities, power, water, roads, etc., and regulatory issues related to taxation (state-central), labour laws, environmental issues etc. are also linked with its growth process.

**Access to finance:** The most important issue hindering the growth, however, is the timely and adequate availability of finance to MSMEs. According to the Prime Minister's Task Force on MSME report, although bank credit to the sector has significantly increased from Rs. 70,787 crore (need conversion in US\$) in March 2000 to Rs. 2,69,153 crore (need conversion) in March 2009, access to credit needs to further increase given the size of the MSME sector.

**Access to markets:** A recent study reveals that MSMEs in India are broadly unaware of technology solutions and tools available to cater their marketing needs.

**Technology and environment:** Technology plays a vital role in an economy, particularly in its development phase. In this era of globalisation, the MSME sector needs to compete not just at the local or the national level but also at the global level. Access to modern technology is acting as a serious threat to the growth of the sector. Lack of resources, namely time and human resources, has been seen as a constant hurdle by MSMEs in order to accept and implement environment-friendly techniques and initiatives.

**Infrastructural bottlenecks:** Industries form the backbone for national development and are one of the important components for the growth of national economy

and growth of the MSME sector at a healthy rate is crucial for the overall growth of the industry. However, lack of proper infrastructural facilities can cause serious damages to an enterprise's value chain process, like production, consumption and distribution of the products, Besides, lack of finance, inadequate marketing facilities, technological obsolescence, etc that are being already faced by MSMEs.

#### V. CONCLUDING REMARKS AND POLICY IMPLICATIONS

The micro, small and medium enterprises (MSMEs) sector have acquired a significant place in the overall socio-economic development of the country since the advent of economic planning commission in 1951. This sector contributes significantly to the manufacturing output, employment generation and exports of the country. Micro, Small and Medium Enterprises (MSMEs), including khadi and village/rural enterprises are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. Over the years, these enterprises are suffering from several severe problems like, financial constraints, poor administration etc. The present study evaluates the growth and contribution of MSMEs in India by utilizing secondary data sources. The results of the study clearly reflected the rising importance of MSMEs in terms of number of enterprises, production and employment contribution during the period under study. In net terms the study has shown positive and significant impact of globalization on the growth and performance of MSMEs in India. However, the study also highlighted the rising problem of sickness among the large MSEs in India. Lack of financial facilities, infrastructural bottlenecks have been emerged as the constraints in the growth of MSMEs in India. Thus, emphasis must be made to develop infrastructural base for the efficient working of MSMEs in India. Adequate financial support, healthy infrastructure is the key areas that must be promoted by the government to enhance the working of these enterprises. There is a need of infrastructural development of the industries in general and MSMEs in particular which should include all types of infrastructural facilities centers, raw material, banks, common marketing facilities, warehouses, like railways, waterways, roadways and airways, proper channels of telecommunication, adequate supply of power and other supporting facilities like Tool Rooms, Testing Labs, Design Centers, etc. There is a need for common infrastructure projects for MSMEs. There is also a need to create and promote an innovation and R&D culture: government sector institutions that are at the cutting edge of research and innovation should be opened up for use by MSME innovators who are struggling to get funds and technology.

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