

IMPORTANCE AND IMPLICATION OF SMES IN INDIAN ECONOMY

Dr.A A Ghatule¹, Pro. S R Dubey²

ABSTRACT

Small and Medium Enterprises (SME) are playing crucial role in Indian economic growth. SME is a driving engine of an economy. It helps to providing large employment opportunities at comparative low cost capital and increasing industrialization in rural area. SME consisting in India 40 million units and providing employment to 1 billion people and contributes about 8 percent of GDP. Now a days large sectors industries is having a limited growth prospects but SME's sector has the potential to expand industrial growth across the country. While SMEs are important for knitting any economic system with society, they were facing numerous challenges such as unavailability of low cost finance and subsidy issues. Despite of challenges ahead Indian SME sector are always ready to consent and obtain new technologies, new business Ideas and automation in industrial and engineering sector. This paper makes an attempt to throw the light of importance and role of SME in context of Indian economy and what are the challenges & opportunity ahead for this sector.

Keywords–Economic Growth, Employment, Enterprise, GDP, SMEs.

I. INTRODUCTION

Small and medium Enterprises are today recognized as a priority in almost every country. According to an estimation that half of two third of business all over the world is of SMEs. It comprise wide divergent of establishment form the micro level to rural enterprises or macro level to modern industrial area. Such MSMEs exists in the form of factories, workshop, trading and service organization and its ownership pattern may be different such as sole proprietorship, partnership, firm or limited company and co-operative societies. Due to their contribution in economic growth importance and emphasis in SME sector is increasing. SMEs are playing crucial role in Indian Industrial sector and have become oxygen for sick units of industry growth. SMEs contributing 8 percent in GDP, besides 45 percent to the total manufacturing output and 40 percent to the exports. This sector has the potential to spread industrial growth across the country and can be major partner in the process of inclusive growth.

II. MEANING & DEFINITION OF SMES

SMEs are defined differently in different part of the world, it is based on net worth, assets, no of employee, shareholder fund etc. The World Bank defines SMEs as enterprises that fulfill at least two of the three requirements; employees; assets; and annual sales.

2.1 World Bank Definition of SMEs

FIRM SIZE	EMPLOYEE	ASSETS	ANNUAL SALES
Micro	< 10	< \$ 10000	< \$100000
Small	< 50	< \$ 3 Million	< \$ 3 Million
Medium	< 300	< \$ 15 Million	< \$ 15 Million

Source; World Bank

The Indian Government passed the Micro, Small, and Medium Enterprise Development (MSMED) Act, 2006 to address policy issues affecting SMEs and to extend the coverage and investment ceiling of the sector. This act aims to facilitate development of the sector along with improving its competitiveness.

The MSMED Act, 2006 classifies enterprises broadly into; manufacturing enterprise and services enterprise. The act further classifies these enterprises into micro, small, and medium enterprise based on their investment in plant and machinery (for manufacturing enterprise) or investment in equipment (for service enterprise). The following is the present ceiling on investment for enterprise to be classified as micro, small, and medium enterprises.

2.2 Definition of Indian MSMEs

Classification	Manufacturing Enterprise Investment in Plant & Machinery	Services Enterprises Investment in Equipment
Micro	Up to Rs 2.5 lakhs	Up to Rs 1 lakh
Small	Above Rs 2.5 lakhs and up to Rs 50 lakh	Above Rs. 1 lakhs and up to Rs 20 lakh
Medium	Above Rs. 50 lakh and up to Rs 1 crore	Above Rs 20 lakhs and up to Rs 50 lakh

Source ; Ministry of Micro, Small & Medium Enterprises

III. ROLE OF SMES IN INDIAN ECONOMY

MSMEs play a crucial role of a compound in growth of the Indian economy by providing energetic association to large local and international value chains. As per the fourth All India Census of MSMEs, 2006, there are more than 36 million MSMEs in India contributing 45 % of industrial output, 40 % to India's exports, and approximately 8% to Indian's GDP. MSMEs employ more than million people and generates gross output of 13,513.8 bn.

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Fourth All India Census of MSMEs

Characteristics	Registered Sector	Unregistered Sector	EC-2005*	Total
Size of the Sector (in lakh)	15.64	198.74	147.38	361.76
No. of rural units (in lakh)	7.07	119.68	73.43	200.18
	(45.2%)	(60.2%)	(49.8%)	(55.3%)
No. of Women Enterprises (in lakh)	2.15	18.06	6.4	26.61
	(13.7%)	(9.1%)	(4.3%)	(7.4%)
Total Employment (in lakh)	93.09	408.84	303.31	805.24
Per Unit Employment	5.95	2.06	2.06	2.23
Total Fixed Investment (₹ in billion)	4491.4	2408.2	-	6899.6

Source: Ministry of Micro, Small, and Medium Enterprises
*Economic Census

The Fourth All India Census of MSME indicates that, of the overall Indian MSME sector, 31.79% of the enterprises are involved in manufacturing activities, while the remaining 68.21% are engaged in services.

Key Industries in which Indian SMEs operate

Industries	% contribution to the industry
Retail Trade, Except of Motor Vehicles and Motor Cycles; Repair of Personal and Household Goods	39.85%
Manufacture of Wearing Apparel; Dressing and Dyeing	8.75%
Manufacture of Food Products and Beverages	6.94%
Other Services	6.20%
Other Business Activities	3.77%
Hotels and Restaurants	3.64%
Sale, Maintenance, and Repair of Motor Vehicles; Retail sale of Automotive Fuel	3.57%
Furniture and N.E.C Manufacturing	3.21%
Fabricated Metal Products, Except Machinery, Equipment	2.33%
Textile Manufacturing	2.33%
Others	19.40%

Source: Ministry of Micro, Small, and Medium Enterprises

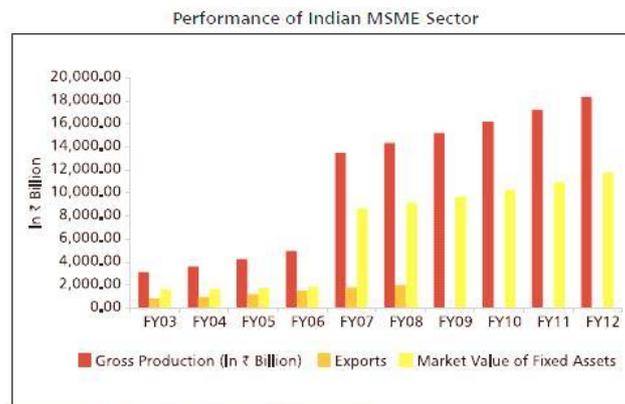
There are more than 6000 products produced by the Indian MSMEs, in addition to providing wide range of services.

IV. PERFORMANCE OF INDIAN MSME SECTOR

Indian SME Sector, which put together have more than 95% of the enterprises in India, has grown significantly, with their gross production scaling up from 11.5% in FY03 to 15.8% in FY06; from ₹ 3,148.5 bn in FY03 to ₹ 4978.42 bn in FY06.

Combined Production of MSME sector has grown from 6.2% in FY08 to 6.3% in FY11, marginally lower than India's GDP numbers during the said period. In FY12, the total production of MSME sector has grown at 6.6%, little higher than India's GDP.

The rapid growth in gross output and market value of fixed assets in FY07 can be attribute to the passage of MSMED Act, 2006 (Table 5), thus, changing SSI definition incorporating medium enterprises and enterprises providing services under the definition.



Source: Ministry of Micro, Small, and Medium Enterprises, D&B Research

Export Figures are available only till FY08; Figures for Gross Production and Market Value of Fixed Assets from FY08 to FY 12 are projected

Note: The data for the period up to 2005-06 is only for small-scale industries (SSI). Subsequent to 2005-06, data with reference to micro, small and medium enterprise are being compiled

The gross products of the MSMEs are projected to grow at a consistent pace of over 6% from ` 14,351.79 bn in FY08 to 18,434.32 bn in FY12. The market value of fixed assets of the MSMEs has grown from 4.9% in FY03 to 5.3% in FY06 and is projected to grow over 6% from FY08 to FY11 and by 7.5% in FY12. Similarly, employment growth rate in MSMEs projected to grow at an average rate of over 6%. These figures clearly highlight importance of the MSME sector towards the development of Indian economy

V. OPPORTUNITY & CHALLENGES OF SMES

SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. Indian market is growing rapidly and entrepreneurs are making remarkable progress in various industries like manufacturing, Precision Engineering Design ,Agro & Food Processing, Pharmaceuticals, Textile & Garments, Retails IT and Service Sector. After globalization technological changes enhance opportunities and improve physical resources to generates ideas and translate them into economic and social value. Banks are also providing credit for empowering them. Consistent policy support is also increasing opportunities of SMEs.

Despite its commendable contribution to the Nation's Economy, SMEs sector does not get the required support from the concerned Government department, Banks, Financial Institutions and Corporate. SMEs face a number of problems such as

- Absence of adequate credit from Banks.
- Limited Capital and Knowledge.
- Non – Availability of proper Information Technology.
- Lower capacity of production.
- Lack of marketing strategy.
- Identification of new markets.
- Challenge of getting skilled low cost labour.
- Follow-up with various government departments to resolve problem.

VI. GOVERNMENT INITIATIVES FOR DEVELOPMENT OF SMES SECTOR

Realizing the importance of the SME sector to the Indian Economy as whole, Central and State governments have taken multiple initiatives to strengthen and enhance the competitiveness of SME sector. This is evident from the subsequent passing of the MSME Development (MSMED) Act 2006. Some of the important effort taken in this sector includes

National Manufacturing Competitiveness Program (NMCP) – With a view to develop the capacity of Indian MSMEs involved in manufacturing and to enable their participation in the global and local markets, Central Government announced the formation of NMCP in 2005, which is currently being implemented by Ministry of MSME in the Public – Private – partnership (PPP) mode.

- Rajiv Gandhi Udyami Mitra Yojana – The aim of RGUMY scheme is to support the probable first generation entrepreneurs who have accomplished the Entrepreneurship Development training program (EDP) or similar program towards the formation and managing of the new enterprises. It aims to enable these entrepreneurs deal with various technical and legal difficulties to establish the industry.
- Public Procurement Policy for goods produced by and services produced by Micro and Small Enterprises with a view to promote MSMEs, improve their market access and competitiveness through their increased contribution in government purchase and enabling linkage between MSEs and large enterprises, Government of India passed Public Procurement Policy for MSEs 2012. The policy mandates all central Ministries / departments and PSUs to achieve annual procurement of at minimum 20% of total annual purchase through the products produced / services reduced by MSEs within a period of three years. The policy also earmarks a sub-target of 4% out of 20 % from SC/ST enterprise.
- Credit Guarantee Trust Fund Scheme- In 2000, Government of India jointly with SIDBI launched the Credit Guarantee Trust Fund for Micro and Small Enterprise (CGTMSE) to enable MSEs, particularly micro enterprise, avail credit up to Rs 10 lakh without any collateral or third party guarantee. With objective of enhancing flow of credit to the MSEs, CGTMSE scheme provides guarantee to the lender that's in an event of a MSE unit which has availed collateral free credit facilities, fails to pay back its liabilities, Guarantee Trust Fund would protect the losses suffered by the lender to an extent of 75/80/85% of the credit facility. As on Dec.31, 2012, total 985,122 proposals have been approved for a total sanctioned amount of 477.2 crore.
- Credit Linked Capital Subsidy Scheme (CLCSS) - Credit Linked Capital Subsidy Scheme (CLCSS)
For technology up-gradation of MSEs, launched in 2000, aims to facilities technology up- gradation among the MSE. The revised scheme aims to provide 15 % capital subsidy (limited to maximum RS 15 lakh) for purchase of plant and machinery. Currently, 884 technologies under 48 products or sub- sectors have been approved under the scheme.
- Other initiative taken by government for the development of MSME sector are setting up of MSME Development Institutes (MSME-Dis), MSME Tool Rooms (MSME- TRs), MSME Technology Development Centers (MSME- TDCs), MSME Testing Centers (MSME- TCs), and MSME Training cum product Development Centers.

VII. CONCLUSION

SME sector contributed this year 8.1 percent in GDP and national or international policy changes opens new door for this sector. Up graded information technology, Research and development and globalization making MSMEs path smooth. 'Make in India' initiative is also promoting India as a global manufacturing hub. The success of this scheme required broad-based policy actions for enhancing human capital, inputs and better credit facilities. Currency forward trade also neglected by banks to hedge their risk. Government should create more awareness about various incentives, subsidies and scheme to upkeep and boost the SME Sector to avail this sector.

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