

MSME –The Growth Engine of Indian Economy

By- Jugal Kishore
Sr Vice President-IIA

History

Industries have been an integral part of the Indian Economy since the Harappan era. However, the entrepreneurial spirit of India was stifled during the long British rule, as also reflected in the GDP growth rate of 0.9% during the first half of the 20th century.

Then came the **Swadeshi movement**, part of the Indian independence movement in the first quarter of the last century, which proved to be a successful economic strategy to remove the British Empire from power and improve economic conditions in India by boycotting the British products and the revival of domestic-made products and production techniques. Gandhiji believed that alienation and exploitation often occur when production and consumption are divorced from their social and cultural context, and that local enterprise is a way to avoid these problems.

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and climate.

In 1998 SSI Board came into existence with IIA as its member since inception. Later on, it was replaced by National Board of MSME(NBMSME), IIA was again nominated a member of this board.

With the enactment of MSMED Act in 2006, followed by merging of Ministry of Agro and Rural Industries & Ministry of Small Scale Industries into the present Ministry of Micro Small & Medium Enterprises(MSME), two important changes took place: 1) the concept of **‘enterprise’** replaced the former concept of ‘industry’, 2) the resultant change was recognition & coverage of **‘services’** by the Ministry of MSME.

The latest landmark development has been the constitution of the High level Task force on MSMEs by the Hon.PM in the year 2009. Keeping in view, IIA’s contribution to MSME sector for past 24 years(1985-2009), and its representation in the NBMSME, President, IIA, was nominated a member of the Task force. It may be mentioned that representatives of only 4 MSME associations from all over the country were included in the Task Force. The Task force has since presented its recommendations which, when implemented are likely to have far-reaching impact on the MSMEs in the country.

Contribution & Importance of MSME in Economical Growth

Micro, Small and Medium Enterprises(MSMEs) are a critical economic factor in poorer countries as well as the more developed economies in the world today. They make up a majority of the domestic business transactions and at the same time play an important role

in international trade. Given their size and diversity of sectors in which they function, MSMEs are highly adaptable between the developed and developing economies, provided that they have a facilitating environment to grow.

With trade barriers falling, Indian MSMEs were initially apprehensive of their ability to survive in a globally competitive environment, but over a period of time, they realized that it also provided them with greater opportunities to become part of a global supply chain as large manufacturing companies are outsourcing their production to low-cost economies.

The MSMEs constitute over 90% 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, MSMEs, including khadi and village as well as rural enterprises, play a pivotal role in the overall industrial development of the country. They have been the significant contributor to the national income, with their huge involvement in country's industrial production, exports, etc. They not only help in providing employment opportunities to millions of people across the country, especially to the village artisans and rural people, but also check the problem of economic concentration in the hands of a few. They create a sound entrepreneurial base in the economy by developing and nurturing the talents, skills, etc. of small and medium scale entrepreneurs. The labour intensity in the MSME sector is estimated to be considerable higher than the large enterprises.

It has been observed that Indian MSMEs have some special traits which enables them to contribute significantly in the economy of the country such as:

- Operational flexibility
- Location wise mobility
- Capacities to develop appropriate indigenous technology

Present Status of MSMEs In India

India which is well on its way to becoming the premier manufacturing location for companies around the world has achieved the prowess mostly on the strength of its MSME sector and it is this sector which has the potential to elevate the Indian population above poverty by attracting much of the workforce from agriculture to manufacturing, with its opportunity for better wages.

According to the 4th Census(2006-07),the total number of MSMEs in the country is estimated to be 2.61 crore MSMEs. Of the total, 28% are in manufacturing and 72% in services. These units are largely in Apparel (14.03 %) followed by Food Products and Beverages (13.53%) and Maintenance of Personal and Household goods (9.25%).

The data also reveals that the per unit employment has increased from 4.48 in 2001-02 to 6.24 in 2006-07, per unit fixed investment from Rs.6.68 lakh to Rs.33.78 lakh and per unit gross output from Rs.14.78 lakh to Rs.46.13 lakh in order of priority.

The MSME sector accounts for employment of 5.97 crore persons, of which, 0.95 crore are in registered units and 5.03 crore in the un-registered units. They contribute 45% of Manufacturing Output ,40%+ of Exports & 8% to GDP.

MSME's Growth rate(10.8%) between 2002-07 was higher than overall Industrial Growth rate(7.7%) against all odds.

MSME's Role in Export

MSME Sector plays a major role in India's present export performance. More than 40% of the Indian Exports is being contributed by MSME Sector. Direct exports from the MSME Sector account for nearly 35% of total exports.

Besides direct exports, it is estimated that small scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods.

It would surprise many to know that non traditional products account for more than 95% of the MSME exports.

Issues & Problems

Despite being pillars of economy, , the MSMEs continue to face several problems in their day-to-day operations, that is, in production and marketing of their products. They find it difficult to sell their output at remunerative prices and cannot spend much on advertising, marketing research, etc. They also face stiff competition from large firms. Inadequate infrastructural facilities and access to credit are other major problems. MSMEs are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials as well as for meeting day-to-day expenses. Further, they find it difficult to recruit and motivate skilled managerial and technical personnel. They are mainly reluctant to adopt modern methods of organisation and management.

To address all these issues, Govt created a separate Ministry of MSME which is the apex national body for facilitation of MSMEs in the country. Further, it has several attached offices/PSUs working under it like:

- Development Commissioner(MSME) Office
- KVIC
- NSIC
- COIR Board
- NIMSME (NISIET) –National Instt of Micro Small & Medium Enterprises
- NIESBUD – Ntional Instt for Entrepreneurship & Small Business development
- IIE – Indian Instt of Entrepreneurship

Ministry of MSME is running various Schemes & Programmes at present:

- Scheme of Surveys, Studies and Policy Research
- Guidelines of Scheme for Assistance to Training Institutions
- Guidelines of Scheme for Assistance to Training Institutions (Hindi version)
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
- Rajiv Gandhi Udyami Mitra Yojana (RGUMY)
- Marketing Assistance Scheme
(Implemented through NSIC)
- Marketing Assistance Scheme (Hindi version)
(Implemented through NSIC)
- Performance and Credit Rating Scheme
(Implemented through NSIC)

- Performance and Credit Rating Scheme (Hindi version)
(Implemented through NSIC)
- Prime Minister's Employment Generation Programme (PMEGP)
(Implemented through KVIC)
- Product Development, Design Intervention and Packaging (PRODIP)
(Implemented through KVIC)
- Khadi Karigar Janashree Bima Yojana for Khadi Artisans
(Implemented through KVIC)
- Interest Subsidy Eligibility Certification (ISEC)
(Implemented through KVIC)

Office of Development Commissioner also operates a number of schemes for the MSME sector such as:

1. National Manufacturing Competitiveness Programme (NMCP) Schemes Under XI Plan
2. Micro & Small Enterprises Cluster Development Programme (MSE-CDP)
3. Scheme for Capacity Building
4. Credit Guarantee Scheme - Collateral free loans upto a limit of Rs.50 lakhs - for individual MSEs.
5. Financial Assistance for using Global Standards (GS1) in Barcoding
6. Purchase and Price Preference Policy - for individual MSMEs
7. Mini Tool Rooms
8. Assistance to Entrepreneurship Development Institutes
9. Scheme of Micro Finance Programme
10. Scheme of National Award

There are Development Institutes (MSME- DI) the nodal agencies for MSMEs in the state and Directorate of Industry which in turn has district level offices i.e. Distt Industries Centre (DIC) in every district of the state for addressing the policy & development issues of the MSMEs.

Then, there are a large number of big & small NGOs working at various levels towards the development & promotion of MSME sector.

IIA, which is the apex body of MSMEs in the country has been working for the cause of MSMEs for 25 yrs now and provides services & support in the following areas:

Identifying new business opportunities specially relevant in fast changing liberalized economy, Technology and quality up-gradation search, interface with foreign delegations for know how, exports and imports, organizing state level convention, trade fair and buyer-seller meets, Enhancing entrepreneurial and managerial skills are regular activities at IIA.

IIA is actively involved in Public-Private Partnership initiative of the Govt. As a result an MSME Knowledge Bank (MKB) has been set up in collaboration with SIDBI at IIA Central Office to meet all kinds of information needs of MSMEs. Apart from a joint venture with SIDBI, IIA have signed an MOU with NSIC for popularizing their schemes among MSME's.

IIA has designed and developing a web based monitoring software for Single Table System of Govt. of U.P. In association with Ministry of Food Processing Govt. of India and Department of Food Processing Govt. of U.P, IIA is organizing a National level event "INDIA FOOD EXPO" since 2004 to 2008 every year. A MOU with Department of Food

Processing Govt. of UP has also been signed for the promotion of Agro & Food Processing Industries in U.P. IIA is an active partner for the UNCTAD project on "Strategies and Preparedness for Trade and Globalization" alongwith FISME & FICCI.

IIA is registered as an Udyami Mitra with the Ministry of MSME with the objective providing handholding support to first generation entrepreneurs for setting up their units.

To discuss, analyze, review and recommend various issues and problems of different industrial sectors/areas, IIA have constituted working groups in areas such as IT., Food Processing, Import-Export, Labour, Energy, Taxation, Pollution & Environment and W.T.O etc. Since inception of IIA, these working groups have contributed a lot for the promotion and development of the industries.

IIA has launched a website: www.iiainline.in wherein latest informations and lot of facilities for the members are available such as buy-sell desk, IIA members online directory, latest tenders, notifications/circulars, more than 1000 project profiles, exporters directory, placement services, special offers to IIA members, latest news updates, important links of all websites related to industrial development and many more . 24 page IIA News letter is also published every month which is very popular among MSME's. This News letter reaches every member of IIA, which is full of useful information related to taxation, energy/power, HR and many more.

Another unique service which MSMEs can avail of is to get their website developed designed & uploaded by IIA in just Rs 500/-per annum which facilitates business promotion to a large extent in today's hi-tech world.

IIA plan, design and organize industry related studies, surveys and developmental programmes regularly. This activity helps both the Government as well as the Entrepreneur.

IIA help its members in particular and MSME in general for promoting their business through Trade Fairs, Exhibitions, Buyer Seller Meets, Visits within & Outside India, Foreign tie-ups etc.

Till date IIA have organized about 20 state level/ National level events for promotion of Micro Small and Midium Industries. Unique facility of buy/sell is available on IIA website. Through this facility MSME entrepreneurs reaches to the Globe Market easily.

IIA acts as a close friend and protector of MSME entrepreneurs by taking up any kind of their industry related problems/issues for solution at various levels. This personal attention/help is the need of MSME entrepreneur because such a help saves lot of time, money and efforts of the managers which he can deploy for other business activities.

Moreover, IIA is an active and permanent member of several consultative committees/boards/expert groups formed by Govt. of India and the State Government.

Through these committees/boards/expert groups, IIA Represents industry before the Government for effective policy formulation and modification. Liaisons at the Government and department levels to help the member units in overcoming their troubles. In association with the Govt. or otherwise IIA organizes Conventions, Trade Fairs, Seminars and Conferences to educate and inform entrepreneurs and thus facilitate industrial growth. Acts

as resource group for the entrepreneurs providing them with the consultancy in assortment of areas including technological, legal and policy related matters.

The most recent activities have been:

- Representation in the MSME Task Force constituted by Hon PM and submitting recommendations for the betterment of MSMEs of the country
- Entering into partnership with German Association, SEQUA, to work together for the cause of Indian MSMEs

Uttar Pradesh

UP has a large MSME base, estimated at almost 12 lakhs, including around 5 lakhs registered units. There are MSME pockets in the state like Varanasi, Allahabad, Moradabad, Saharanpur, Lucknow, Kanpur, Agra, Ferozabad, Meerut, Bhadohi, Ghaziabad, Noida, Bareilly, Gorakhpur, Khurja, Aligarh and Mathura.

MSME sector, contributes over 50 per cent of the state's industrial output and provides employment to around 1.5 crore people.

U.P is among the three largest producer states in India in Sugar, Chemicals, Electronics, Plastics, I.T. Food Products, Beverages, Petroleum Products and Alcoholic drinks. U.P is also known for specialized products world over, few examples are Handicrafts, Carpets, Brassware, Pottery, Leather products, Locks, Musical Instruments, Sports Goods, Perfume, Glassware Zari & Zardozi etc.

U.P in itself is a Large and growing market with 17 Crore strong population. In addition it is strategically located in northern India from where industries in U.P can easily cater to 60% of the Indian Market.

Hence, it is a state of unlimited potential for industrial development. We have all the resources and ingredients required for industrial development in the State but for almost two decades now we have not been able to harness these resources to the optimum level. We all know that U.P was a leading State in the country till mid eighties as far as industrial development is concerned.

State Specific Problems

- Despite the clear guidelines issued by the Govt regarding the inspection of industries, the same is being openly violated in UP
- The Udyog Bandhus in the state are being rendered ineffective at all levels which results in industries' problems remaining unsolved.
- The District level meetings for preparation of District level plans do not invite the participation of industrialists which render the plans impracticable to a large extent.
- The District Industries Centres(DICs) of the state need to be modernized and strengthened for better services to MSME.
- The gov't's Price & Purchase Preference policy for the MSMEs is being openly violated.
- Govt schemes & policies are not being implemented correctly. These(policies) look good on papers only and fail badly at ground level

Expectations from UP Govt

Next to agriculture, this sector is provider of bread & butter to maximum number of people, hence the government needs to pay special attention towards its development.

- Sickness in the industries is one of the most serious problems in the changing scenario especially in U.P. where large no. of industries close down every year. It is necessary to frame a concrete policy for their rehabilitation/exit route.

The Data on registered units reveals that though closure among MSMEs has decreased from the 39% in 2001-02 to 21.64% in 2006-07, Sickness has increased marginally from 13.98% in 2001-02 to 14.47% in 2006-07. Sickness is found to be largely on account of lack of demand and shortage of working capital.

- The needs & priorities of MSMEs are quite different from big industries, hence the need for a separate industrial policy for this sector.
 - A State level conference of industrialists should be organized every year on the various industry related issues and the govt policies/programs for the industry should be framed accordingly.
 - The District Industries Centres should be operated on triple P(Public Pvt Partnership) pattern.
 - MSMEs should get interest subvention at par with agriculture. At present, we get advances at about 12.5 per cent, which is high for us.
-