



CONTRIBUTION OF MANUFACTURING OUTPUT OF MSME IN GDP

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Abstract

Today's global scenario contributions of MSMEs are exposed to greater opportunities for expansion and diversification across the sectors. As a result Micro Small and Medium Enterprises play a vital role for the growth of Indian economy by contributing 45% of the industrial output, 40% of exports, 42 million in employment, create one million jobs every year and produces more than 8000 quality products for the Indian and international markets. The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. SMEs are finding increasing opportunities to enhance their business activities in core sectors. The paper highlights the issues and challenges of MSME's despite their high enthusiasm and inherent capabilities to grow, SMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic & global competition, working capital shortages, not getting trade receivables from large and multinational companies on time, insufficient skilled manpower, change in manufacturing strategies and turbulent and uncertain market scenario.

KEY WORDS: CLCSS, CGTMSE, MSMEs, NMCP & RGUMY

I. INTRODUCTION

Indian Micro Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. SMEs 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 areas. SMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The Sector consisting of 36 million units, as of today, provides employment to over 80 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. The SME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth. SMEs also play a significant role in Nation development through high contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Operational Flexibility, Location Wise Mobility, Low Intensive Imports, Capacities to Develop Appropriate Indigenous Technology, Import Substitution, Contribution towards Defence Production, Technology – Oriented Industries, Competitiveness in Domestic and Export Markets thereby generating new entrepreneurs by providing knowledge and training.

Despite their high enthusiasm and inherent capabilities to grow, SMEs in India are also facing a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic & global competition, working capital shortages, not getting trade receivables from large and multinational companies on time, insufficient skilled manpower, change in manufacturing strategies and turbulent and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations. SMEs that are innovative, inventive, international in their business outlook, have a strong technological base, competitive spirit and a willingness to restructure themselves can withstand the present challenges and come out successfully to contribute 22% to GDP. Indian SMEs are always ready to accept and acquire

new technologies, new business ideas and automation in industrial and allied sectors.

Micro and small enterprises largely comprise first-generation entrepreneurs, who have had a limited structured training on resource planning, capital management and labour management. As a result, lack of managerial competence often shows in poor book-keeping and a limited knowledge of formal financial institutions, which further inhibits the growth of these enterprises. Most of these smaller firms are fragmented, and as a result, are unable to organize themselves in order to reduce procurement costs from large enterprises or streamline the output supply chain.

II. DEFINITIONS OF MICRO, SMALL & MEDIUM ENTERPRISES

The definition of Small Scale Industries has undergone changes for many times. The main criterion for definition was mainly the investment level and number of employees. In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified into two categories.

(a) Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951. The Manufacturing Enterprise is defined in terms of investment level in plant & machinery.

(b) Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified are as under:

Manufacturing Enterprises – Investment in Plant & Machinery		
Description	INR	USD(\$)
Micro Enterprises	upto Rs. 25Lakh	upto \$ 62,500
Small Enterprises	above Rs. 25 Lakh & upto Rs. 5 Crore	above \$ 62,500 & upto \$ 1.25 million
Medium Enterprises	above Rs. 5 Crore & upto Rs. 10 Crore	above \$ 1.25 million & upto \$ 2.5 million

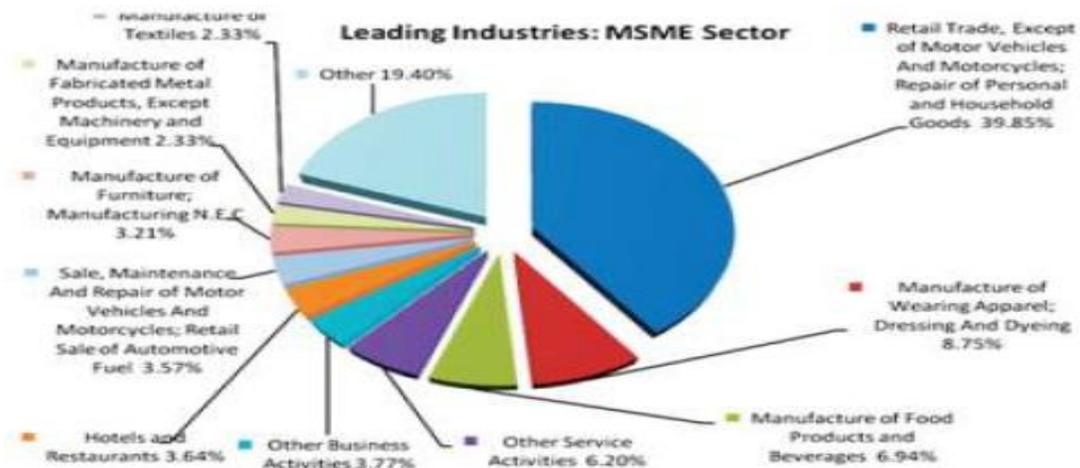
Service Enterprises – Investment in Equipments		
Description	INR	USD(\$)
Micro Enterprises	upto Rs. 10Lakh	upto \$ 25,000
Small Enterprises	above Rs. 10 Lakh & upto Rs. 2 Crore	above \$ 25,000 & upto \$ 0.5 million
Medium Enterprises	above Rs. 2 Crore & upto Rs. 5 Crore	above \$ 0.5 million & upto \$ 1.5 million

The estimated contribution of Micro, Small and Medium Enterprises (MSME) sector, including service segment, to the country’s GDP during 2012-13 was 37.54 per cent; while the total employment in the sector is 805.24 lakh; and the share of MSMEs in India’s total export for the year 2014-15 was 44.70 per cent.

III. CONTRIBUTION OF THE SSI / MSME SECTOR

3.1 GROWTH & PERFORMANCE OF MSME SECTOR

As per the Fourth All India Censuses of Micro, Small & Medium Enterprises (MSME) and the performance of the sector is assessed which contributes significantly to the number of enterprises, employment and output of the country.



Source: - Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises 2014-15: Registered Sector.

The above diagram is based on the data sets of Third and Fourth All India Census of SSI/MSME, augmented with data sets of EC, 2005 and growth rate observed during fourth (1998) and Fifth (2005) Economic Census, the performance of SSI/MSME Sector is summarized as below: It may be noted that for both the Third and Fourth All India Census of SSI/MSME, unregistered sector was assessed by conduct of sample survey of the sector.

3.2 PERFORMANCE OF MSME, EMPLOYMENT AND INVESTMENTS

The Indian Micro, Small & Medium Enterprises (MSME) Sector is assessed by conduct of periodic that all India Census of the sector contributes significantly to the number of enterprises, employment and output of the country. The scope and coverage of the MSME sector was broadened under the MSMED Act, 2006, which recognized the concept of “enterprise” and to include both manufacturing and services sector, besides defining the medium enterprises under MSME sector.

S.No	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
I	II	III	IV	V
1	2006-07	361.76	805.23	868,543.79
2	2007-08*	377.36	842.00	920,459.84
3	2008-09*	393.70	880.84	977,114.72
4	2009-10*	410.80	921.79	1,038,546.08
5	2010-11*	428.73	965.15	1,105,934.09
6	2011-12*	447.66	1,011.80	1,183,332.00
7	2012-13*	467.56	1,061.52	1,269,338.02

Table1: Performance Of SSI / MSME: Employment, Investments

Source: MSME Annual Report 2013-14, Government of India

- Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transport and storage & warehousing (except cold storage) for which data was extracted from Economic Census 2005, Central Statistics Office, MOSPI.
- Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing(except cold storage) which were excluded from Fourth All India Census of MSMEs, unregistered sector .

3.3 CONTRIBUTION OF MANUFACTURING OUTPUT OF MSME IN GDP

According to the results of Third and Fourth All India Census of Small Scale Industries / Micro, Small & Medium Enterprises, an attempt has been made to estimate the share of MSME Sector in manufacturing output and GDP revising the existing ratio-based estimation procedure adopted by the Planning Commission in the year 1992. The methodology was finalized in consultation with the Central Statistics Office, Ministry of Statistics & Programme Implementation. The estimated value of manufacturing output of MSME Sector and its share in total manufacturing output & GDP, are as noted below:-

Contribution of Manufacturing Output of MSME in GDP (At 2004-05 Prices)

Year	Gross Value of Output (Rs. In Crore)	Percentage Share of MSME	
		Total Manufacturing Output	Gross Domestic Product (GDP)
2006-07	1198817.55	42.02	7.73
2007-08	1322960.41	41.98	7.81
2008-09	1375698.60	40.79	7.52
2009-10	1488390.23	39.63	7.49
2010-11	1655580.60	38.48	7.42
2011-12*	1790804.67	37.52	7.28

Table 2: Contribution of Manufacturing Output of MSME in GDP

Note: * - Provisional.

Source: 1. Fourth All India Census of MSMEs 2006-07,
 2. National Account Statistics 2013, CSO, M/O SPI and
 3. Annual Survey of Industries, CSO, M/O SPI

Table 2 indicates that it can be seen the contributions of MSME sector to the Gross Domestic Product (GDP) of the country and also the growth trend based on the results of Third and Fourth All India Census of Small Scale Industries / Micro, Small & Medium Enterprises, an attempt has been made to estimate the share of MSME Sector in manufacturing output and GDP revising the existing ratio-based estimation procedure adopted by the Planning Commission in the year 1992 In the year 2006-07 this sector had given an estimated contribution of around 42 per cent of total industrial production and 8 per cent of GDP which was about 39.74 per cent of industrial production a decade ago (1999-2000) and was contributing to 5.86 per cent of GDP at that time. From this data it is clear that there has been a negative growth in industrial production and contribution to GDP in all the years of last one decade. Another important factor is over the last one decade this sector has always inched up its contribution to GDP. The final results of the latest Census (Fourth Census), conducted (with base reference year 2006-07), wherein the data was collected till 2009 and results published in 2011-12, the estimated contribution of MSME sector (including service segment) to GDP during 2010-11, 2011-12 & 2012-13 are 36.69 per cent, 37.97 per cent & 37.54 per cent respectively, said the Minister.

IV. ISSUES AND CHALLENGES OF INDIAN MSME SECTOR

Despite the sector's strategic importance in overall industrialization, employment generation, and achieving a balanced socio-economic growth, MSMEs are confronted with several challenges that threaten to derail the sector's growth performance. The most common challenges faced by the MSMEs include inadequate access to timely and adequate credit, inadequate infrastructure, lack of availability of skilled labour, lack of availability of adequate technology, inadequate marketing and branding, and delayed payment from the clients.

- **INADEQUATE ACCESS TO CREDIT**

MSMEs have traditionally relied on bank finance for their operations as well as for business expansion. Hence, access to timely and adequate finance is crucial for the growth and development of these enterprises. According to the Fourth Census of MSME sector conducted in 2009, only 5.18% of the MSME units (both registered and unregistered) availed finance through

institutional sources, 2.05% had availed finance from non-institutional sources, and 92.77% of the units had no access to finance or depended on self-finance. These figures clearly highlight the extent of financial exclusion in the MSME sector.

- **INADEQUATE MARKETING AND BRANDING**

Marketing and branding has been another key area of concern for SMEs mainly due to unavailability of finance and lack of awareness on appropriate marketing and branding strategy. Most of the MSMEs fail to get enough buyers or generate enough enquiries because of their inability to develop Unique Selling Point (USP) for their products or services. Their lack of market awareness and difficulty in identifying the USP of their product and service makes it difficult for them to understand their target audience.

- **LACK OF AVAILABILITY OF SKILLED LABOUR**

Despite playing a major role in employment creation, SME entrepreneurs find it difficult to obtain skilled labour. While the competitiveness of MSMEs depends on availability of timely and adequate finance, effective marketing and branding strategy, and use of appropriate and updated technology, the availability of skilled labour is the key parameter that can enable an MSME to become competitive. Though the National Policy on Skill Development has set a target of training 500 million people by 2022, the industry has to contribute to building up a large base of appropriately skilled workforce available for employment in MSMEs. Industry associations have to play a pivotal role to upgrade the skills of the workers and acquaint them with skills compatible with the new technology.

- **LACK OF AVAILABILITY OF ADEQUATE AND APPROPRIATE TECHNOLOGY**

MSMEs need to be technology literate to compete effectively, on the backdrop of increased competition in a global environment and uncertainty due to the global downturn. MSMEs will have to continuously incorporate latest technology into their production processes as well as in their marketing and management functions to cut costs, gain efficiency, and

achieve economies of scale. However, the cost associated with implementation or adoption of technology, installing and maintaining information systems, and maintaining skilled workforce to operate the technology are high and as such would be of concern for many small firms.

● **INADEQUATE INFRASTRUCTURE**

Unlike MSMEs which operate through clusters and have access to adequate infrastructure such uninterrupted power supply, access to tool room and testing centres, and adequate logistics and transport facilities, fragmented geography of non-cluster MSMEs makes it difficult for them to access quality infrastructure, thereby, constraining growth of these enterprises. To enable Indian MSMEs become globally competitive, it is necessary that they avail quality infrastructure, which enables them to increase production, improve quality, lower the costs, and achieve economies of scale. Hence, there is need for infrastructure development in the MSME sector, inclusive of all sorts of basic and supporting infrastructure facilities as well as upgradation of the existing infrastructure.

V. CHALLENGES

Today's Indian MSMEs operate in a very challenging atmosphere India has slipped 3 ranks in its Ease of Doing Business Index which raises deep concerns about the state of affairs in India. MSMEs are said to be the backbone of India's economy, however not much is being done to promote their healthy growth and development. The key challenges faced by MSMEs on a day-to-day basis are indicated below:

- Dearth of easy finance and credit instruments
- Limiting regulatory policies
- Unavailability of modern, affordable technology
- Lack of basic infrastructure facilities
- Absence of exclusive marketing platforms and distribution networks
- Inflexible labour laws and availability of affordable skilled labour

VI. GOVERNMENT INITIATIVES FOR DEVELOPMENT OF MSME SECTOR

Realizing the significance of the MSME sector to the Indian economy, both the central and state governments have taken various initiatives to strengthen and enhance the competitiveness of MSME sector. Few of the key initiatives which includes:

i. National Manufacturing Competitiveness Program (NMCP)

With a view to develop the capacity of Indian MSMEs engaged in manufacturing operations and to enable them compete effectively in the global and local markets, Government of India (GoI), in 2005, announced the formulation of National Manufacturing Competitiveness Program (NMCP), which is currently being implemented by the Ministry of MSME in the Public-Private-Partnership (PPP) mode.

ii. Rajiv Gandhi Udyami Mitra Yojana

The objective of Rajiv Gandhi Udyami Mitra Yojana (RGUMY) is to provide handholding support to the potential first generation entrepreneurs who have completed the Entrepreneurship Development Training Program (EDP) or similar programs towards the establishment and management of the new enterprises. It aims to enable these entrepreneurs deal with various procedural and legal hurdles in setting up of an enterprise.

iii. Public Procurement Policy for goods produced by and services provided by Micro and Small Enterprises

With a view to promote MSEs, improve their market access and competitiveness through their increased participation in government purchases and enabling linkages between MSEs and large enterprises, Government of India passed Public Procurement Policy for MSEs in 2012. The policy mandates all Central Ministries/departments and PSUs for achieving an overall annual procurement of at least 20% of total annual purchases through the products produced/services rendered by MSEs within a period of three years. The policy also earmarks a sub-target of 4% out of 20% from the MSEs owned by SC/ST enterprise.

iv. Credit Guarantee Trust Fund Scheme for Micro and Small Enterprises

In 2000, Government of India jointly with SIDBI launched the Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE) to enable MSEs, particularly micro enterprises, avail credit up to 10 mn without any collateral or third party guarantees. With objective of enhancing flow of credit to the MSEs, CGTMSE scheme provides guarantee to the lenders that in an event of a MSE unit which has availed collateral free credit facilities, fails to pay back its liabilities, Guarantee Trust Fund would cover the losses incurred by the lender to an extent of 75/80/85% of the credit facility. As on December 31, 2012, 985,122 proposals have been approved for a total sanctioned amount of 476.2 bn.

v. Credit Linked Capital Subsidy Scheme (CLCSS)

Credit Linked Capital Subsidy Scheme (CLCSS) for technology upgradation of Micro and Small Enterprises, launched in 2000, aims to facilitate technology upgradation among the micro and small enterprises. The revised scheme aims to provide 15% capital subsidy (limited to maximum 15 lakh) for purchase of plant and machinery. Currently, 884 technologies under 48 products or sub-sectors have been approved under the scheme.

- vi. Other initiatives 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 Centres (MSME-TDCs), MSME Testing Centres (MSME-TCs), and MSME Training cum Product Development Centres.
- vii. The Budget 2013-14 proposed to enhance the refinance capability of SIDBI to 100 bn per year from the previous level of ` 50 bn. The Factoring Act passed in 2011 aims to enable Indian MSMEs to recover their receivables at a discounted price, thereby, supporting them to manage their cash flow effectively. Budget 2013-14 proposed to provide a corpus of 5 bn to SIDBI to set up Credit Guarantee Fund for factoring. The Budget also permitted SMEs and start-ups to get listed on the SME Exchanges without an IPO.

MSMEs are contributing a lot towards social and economic well being of the country. As the India face a tough situation due to extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure, anti dumping policy, challenges on product Standardization, total quality management etc. Micro small and medium enterprises have been considered as engine for economic growth and promoting equitable development of the country because of its employment and export potential and economic empowerment of a vast section of the population.

VII. CONCLUSIONS

MSMEs, as a major contributor towards growth of domestic economy and employment generation, should get adequate support in terms of policy framework, incentives and other relevant aids. The overall performance and contribution of small scale industries to Indian economy is described in terms of its absolute growth in units, employment, production and exports. The formulation and implementation of policies and programmes/projects/schemes for MSME sector is undertaken by the Ministry with the assistance of its attached and autonomous organizations. The growth of small scale industries can be evaluated on the growth rates of units, Employment, output and exports of Small Scale Industries in 2013 with that of 1990s. At the same time MSMEs sector faced Key Challenges like as Lack of availability of adequate and timely credit, High cost of credit, Collateral requirements, Limited access to equity capital, Procurement of raw material at a competitive cost, Problems of storage, designing, packaging and product display, Lack of access to global markets, Inadequate infrastructure facilities, including power, water, roads, Low technology levels, Lack of skilled manpower for manufacturing, services, marketing, etc. Despite the various challenges it has been facing, the MSME sector has shown admirable innovation, adaptability and Resilience to survive the recent economic downturn and recession. MSMEs are a very important segment in the Indian industrial sector and would continue to play a crucial role in the Indian Economy in the future.

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