

Stability Of GDP Depends Upon Msmes

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Abstract:

Micro, Small and Medium enterprises plays an crucial role in empowering and development of business ecosystem in the country. There are around 63 million MSMEs in India which absorb around 110 millions of working man power. This sector has produced various products of value USD 147390 million in 2017-18 as per data shared by DGCIS and their contribution in export was around 48.5%. Their contribution in overall GDP of the country is more than 30%. They promote entrepreneur activities and also address poverty issues by catering the need of majority of population and minimizing the regional imbalances. The paper is being present to analyze the importance of MSMEs in sustainable growth and stability of GDP. The various crucial aspects, like skill development of labor and handholding support for unregistered and unorganized MSMEs from Government, are elevated in paper which are affecting the output and growth of MSME sector.

Keywords:- MSME, empowering, GDP, sustainable, Government

Introduction:-

The problems of MSMEs in India practically started after liberalisation in 1991. Their contribution, was at approx. around 70% in the manufacturing sector, has changed after the liberalisation and now it is reduced to roughly 40%. The boost given to the corporate sector has affected the contribution by MSMEs in the economy. MSMEs in India are largely incidental because the States and the Government of India have been lacking in accommodating all promising MSMEs with in the space created in the regional geography of their domain. Whereas, in China the MSMEs have grown as per the planned development and therefore the exports by the MSMEs is as much as 50% of the GDP. Whereas, in India it is just 30%. Table 1 and figure 1 is showing the share of MSMEs in overall GDP of the country. The scaling of the operation of MSMEs has been a gradual approach and hence the low level competition kept them on the margin. At present there are roughly 6.3 crores of MSMEs in India and medium size are just 1% of the total MSMEs. There is problem of availability of credit to MSMEs as these are not organised in industrial hubs and the success of Special Economic Zones (SEZ) is limited at the most. The MSMEs are struggling with issues of technology, man power and proper credit facilities. The Govt of India developed Exim banks in 1980's to support the manufacturing of MSMEs. But the success is not very encouraging rather it is very strange that the NPAs which used to be very high for small scale industries and now these are problematic for corporate sector because banks are willingly concentrating their capital to the corporate sector. Non-banking finance companies in India is also a new idea perhaps it comes in to the space because of accommodating the MSMEs suitably. But their interest rates are very-very high. Roughly 95% of

micro enterprises are still dependent on the lending given by local money lenders or MSMEs have come up as own account units. Which means that the funds have to be arranged by the promoter himself. Different surveys reveals that the MSMEs, which have not been covered by the banks, lack in terms of turnover and the quality of the products being produced. India has come up in grabbing the export by the ancillary units and the credit goes to the corporatisation in India. Say for example the engineering goods are manufactured by the ancillary units in the space of automobiles, telecom equipment and electronic appliances and so on. Such ancillary units have established themselves in accordance with the expectation of the corporate sector. Table 2 is showing the share of MSME's export in total exports. But the fate of isolated units is not as charming as the ancillary units which number only 45 lacs. Even during covid when the distress was same for all, only 45 lacs units have been extended the benefit of credit up to 3 lacs crores. It indicates the importance of MSMEs they have been enjoying all these years. MSMEs generally suffer from various lacuna which the Govt has adopted for boosting GDP vis a vis employment in the country. Roughly 90% of the work force is engaged in MSMEs and the corporate sector absorb only 10% of the work force. But still the Government is oblivious to the employment creation in the country. In the earlier days after independence the Government endeavoured to setup ITIs and Poly Techniques, so that the adequate human resources are available for employment in small scale industries. Probably this scheme was working very well, even though the data is not available in the present day. The survey by the FICCI has always revealed that the MSMEs proper nurturing by the Govt is extremely important in case the per capita income and the GDP have to be levelled up. But over the years particularly during the last 7 years, the Government is double minded whether the privatisation should be the way to achieve the double digit growth or it is the public sector, which should continue to make up the losses in the private sectors. Government has experimented with NTC (National Textile Corporation) and HMT (Hindustan Machine Tools) at corporate level, but the States since 1970 had done their duty in setting up the State Finance Corporations, which were 18 in numbers. Besides the Government had setup SIDBI also. Their purpose was to help the small scale industries because the monopoly those days were not allowed to flourish. After liberalisation, the situation has drastically changed. The big sharks like the enterprises by the Ambani and Adani have come up in such a penetrating manner that the small scale industries are losing their status every day. Roughly 3 crores MSMEs have become redundant after covid because their system of operation has been completely ruptured and employment situation in the country indicates that country is passing thru a difficult time. How these MSMEs will be given climb up, their fortune is hanging in the balance. The efforts made by the Govt by introducing GST and spreading the outreach of digitisation. It is claiming that informal sector is fast converting in to the formal sector but given the labour laws in the country and the basic training conditions prevailing in the country, it can give us satisfaction for some moment but largely the sustainability of MSMEs is dependent upon the credit facility, technology and also the human resources available at market prices . Wages in India are not consistent. These are very high for the skilled labour but very low for unskilled workers and by chance unskilled labour are unproportionally very high. Their absorption in the productive sector is very-very tough. The situation till date is not very satisfactory as it evident from the data provided. If the account of skilled employees is taken in to consideration, we can see that very low percentage of skilled workers are working in MSMEs, Though khadi and village industry commission is a unwanted sector but still skilled employees working there in KVIC are very nominal. This is reflected in the export of handloom commodities which has been falling over the years. The traditional cities like Banaras, Kanchipuram, Faizabad and Moradabad which were engaged in production of khadi silk, semi culture products, bangles and vessels are completely outdated in the present environment because their input requirements could not be satisfied by the banking institutions simply because the requirement of collateral could not be fulfilled. The state-wise analysis provided in the table 3 and figure 3 indicate that the leading states like Maharashtra, Gujrat even Rajasthan ,which had been one among the BIMARU state, and Tamil Nadu have progressed significantly in organising the MSMEs which is evident from the number of total MSMEs and the MSMEs in the unorganised sector. These states have got prudence in town and country planning which ensures that the housing habitation and the industrial clusters should be maintained in judicious manner so that employment issues do not destabilise the political environment. The political environment in Gujrat, Tamil Nadu and in Rajasthan is set in line with expectations of the people and the top

demand is employment. Bihar and Uttar Pradesh have fallen short of MSMEs when compare to the total population in the country.

Table 1 - Share of MSMEs in all India GDP (Amount in Rs. Crores)			
Year	Gross Value Added (GVA) by MSME	Total all India GDP	Share of MSME in All India GDP (%)
2011-12	2622574	8736329	30.00
2012-13	3020528	9944013	30.40
2013-14	3389922	11233522	30.20
2014-15	3658196	12467959	29.34
2015-16	4059660	13771874	29.48
2016-17	4502129	15391669	29.25
2017-18	5086493	17098304	29.75
2018-19	5741765	18971237	30.27

Source: MSME Annual Report 2018-19 , 2020-2021

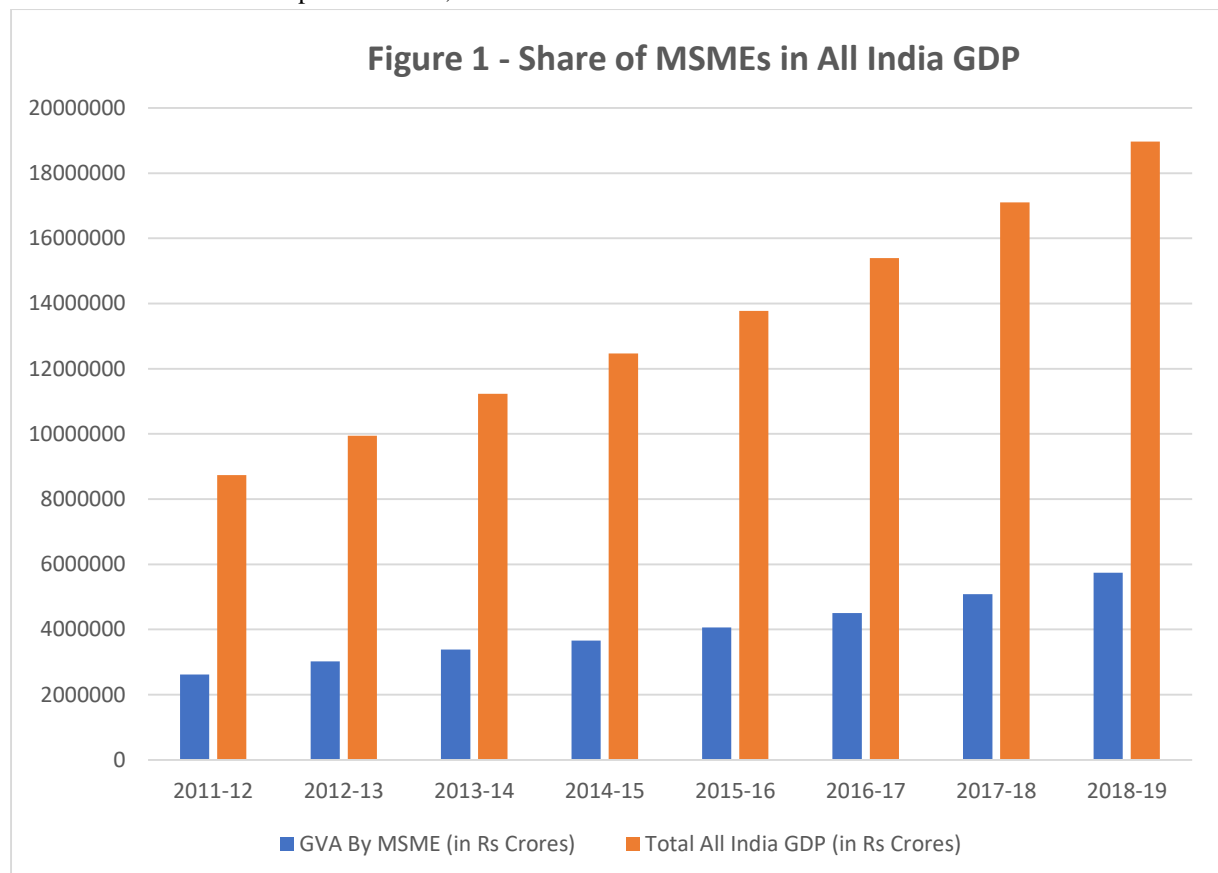


Table 2 - Share of MSMEs export in total exports (Amount in Rs Crores)			
Year	Total Export in India	Exports by MSMEs	Share of MSME Exports *(%)
2005-06	456418	150242	32.91
2006-07	571779	182538	31.92
2007-08	655864	202017	30.80
2008-09	840755	214387	25.49
2009-10	845534	238752	29.96
2010-11	1136964	256834	22.47
2011-12	1465959	283847	19.36
2012-13	1634318	654750	40.06
2013-14	1905011	808200	42.42
2014-15	1896348	849248	44.76
2015-16	1716384	855780	49.86
2016-17	1849434	918990	49.69
2017-18	1956515	950100	48.56
2018-19	2307726	1110100	48.10
2019-20	2219854	1105710	49.81
2020-21	2159043	1068813	49.50

*Decimal points rounded off

Source:- Ministry of Commerce & Industry, Department of Commerce

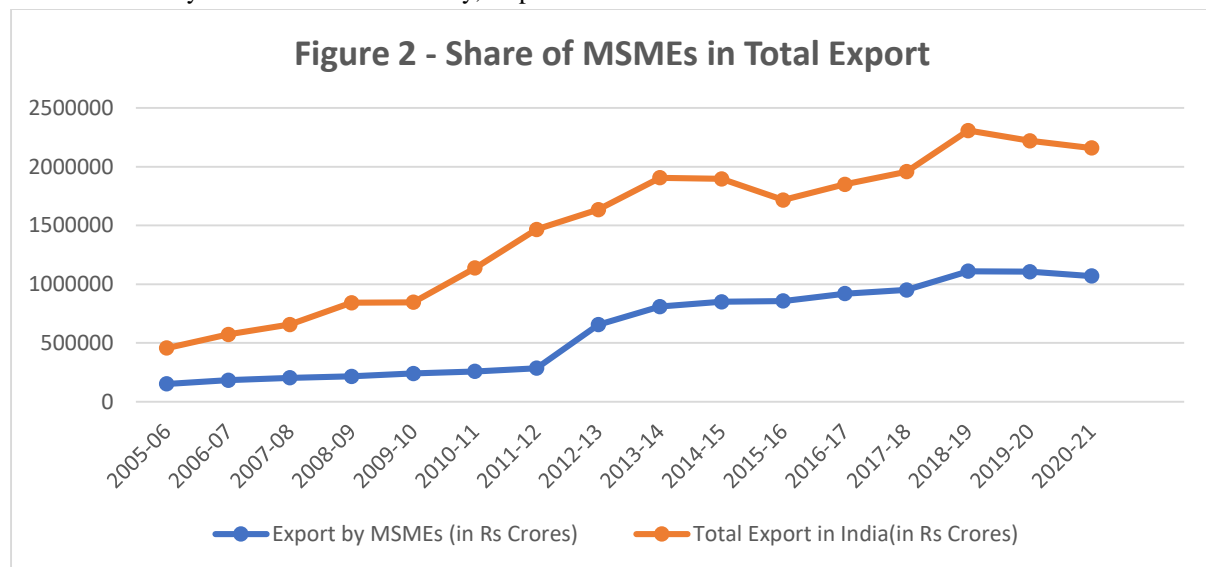


Table 3 - State wise skilled labour data (in lakhs)			
SN	State/UT	No of Skilled Employees in Unregistered MSMEs	No of skilled Employees Required in Unregistered MSMEs
1	Andhra Pradesh	5.63	32.34
2	Arunachal Pradesh	0.08	0.46
3	Assam	0.41	2.33

4	Bihar	0.91	5.22
5	Chhattisgarh	1.17	3.24
6	Delhi	2.04	11.72
7	Goa	0.45	2.56
8	Gujarat	6.02	34.58
9	Haryana	2.97	17.04
10	Himachal Pradesh	0.55	3.18
11	Jammu & Kashmir	0.25	1.43
12	Jharkhand	0.76	4.38
13	Karnataka	3.41	19.57
14	Kerala	4.92	28.27
15	Madhya Pradesh	2.36	13.53
16	Maharashtra	7.38	42.39
17	Manipur	0.06	0.36
18	Meghalaya	0.10	0.56
19	Mizoram	0.02	0.13
20	Nagaland	0.03	0.18
21	Odisha	1.95	11.19
22	Punjab	4.20	24.14
23	Rajasthan	2.35	13.52
24	Sikkim	0.05	0.29
25	Tamil Nadu	8.22	47.23
27	Tripura	0.07	0.41
29	Uttarakhand	0.85	4.88
28	Uttar Pradesh	3.17	18.23
30	West Bengal	6.08	34.91
32	Chandigarh	0.23	1.33
36	Puducherry	0.10	0.57
	ALL	66.80	380.18
Source: - World bank Discussion paper Series 2017, MSME Annual Report			

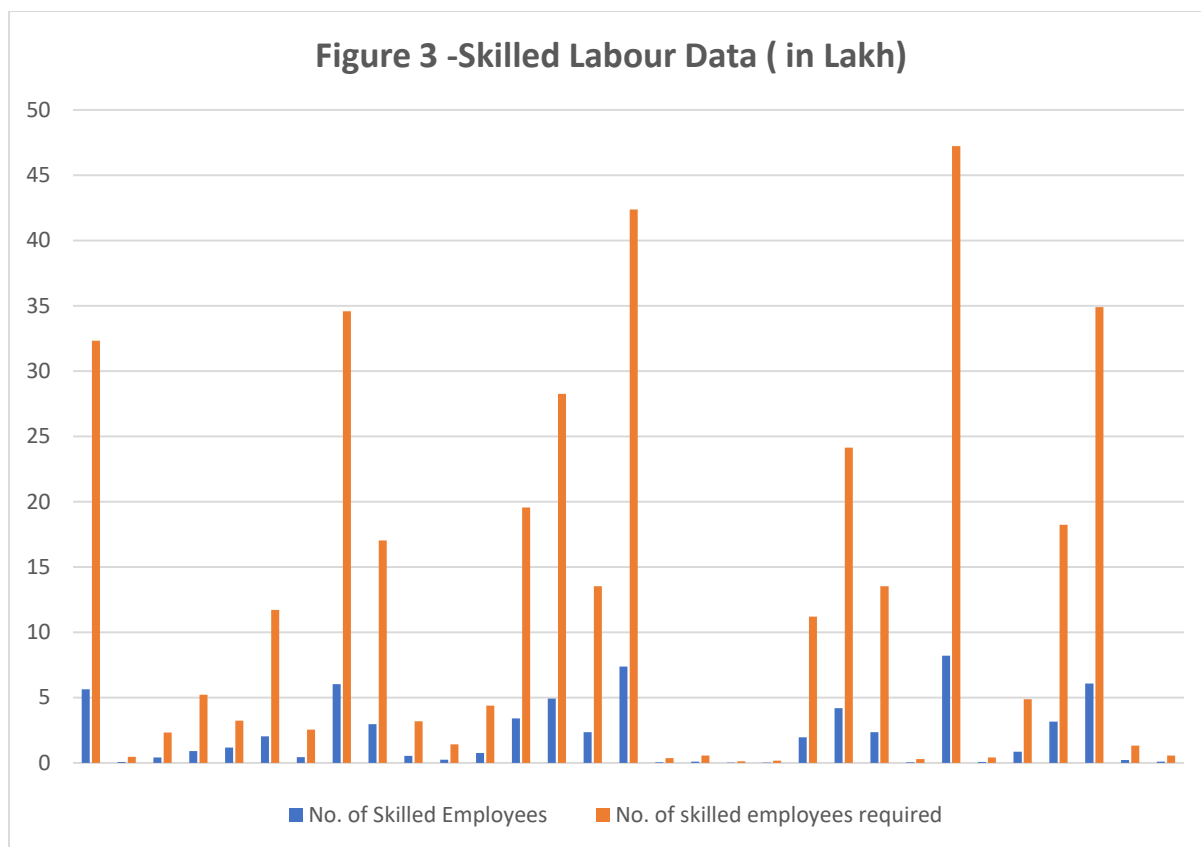


Table 4 - Share of Sick MSMEs in Total MSMEs

Year	Total MSMEs (Lakh)	Sick MSMEs (Lakh)	Share (%)	Total Investment in Sick MSMEs (Crores)
2006-2007	361.76	1.27	0.35	4981
2007-2008	377.36	0.85	0.23	3082
2008-2009	393.7	1.04	0.26	3619
2009-2010	410.8	0.78	0.19	5233
2010-2011	428.73	0.90	0.21	8934
2011-2012	447.66	0.86	0.19	9283
2012-2013	467.56	2.22	0.47	16640
2013-2014	488.46	4.68	0.95	32870
2014-2015	510.57	5.37	1.05	33378
2015-2016	633.88	4.86	0.77	40642

Source :- NSS73rd Round 2015-16, RBI report

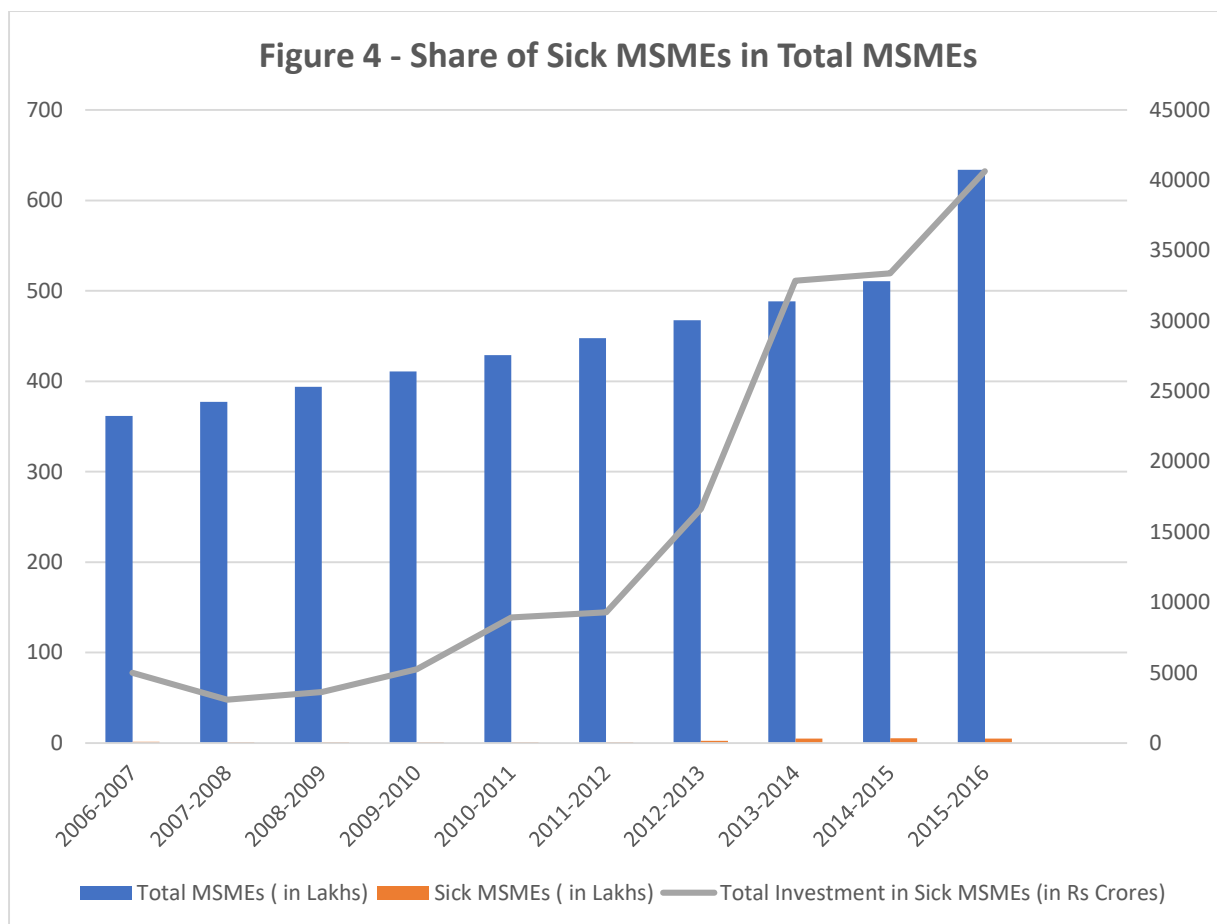


Table 5 - Comparison of Growth of MSME sector over a decade

Year	Total MSMEs (in million)	Unregistered MSMEs. (in million)	Total Employment by MSMEs (in million)	Total Employment by Unregistered MSMEs (in million)
2006-07 (4thAI Census of MSMEs)	36.18	19.9	80.5	40.6
2015-16 (NSS 73rd)	63.39	38.7	110.9	77.7

Source:- World Bank Report 2017, Annual Report MSMEs

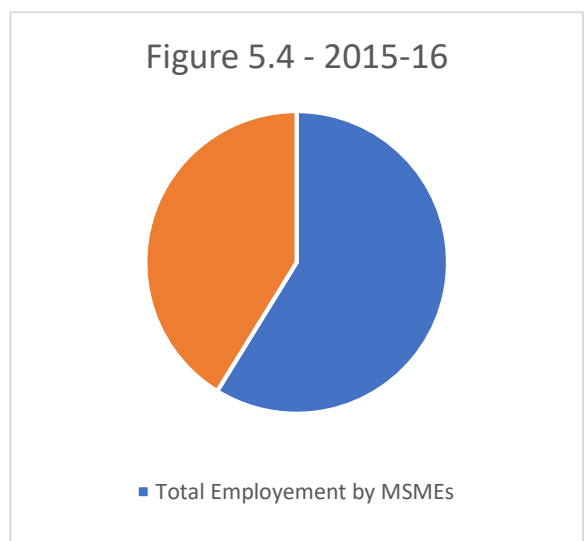
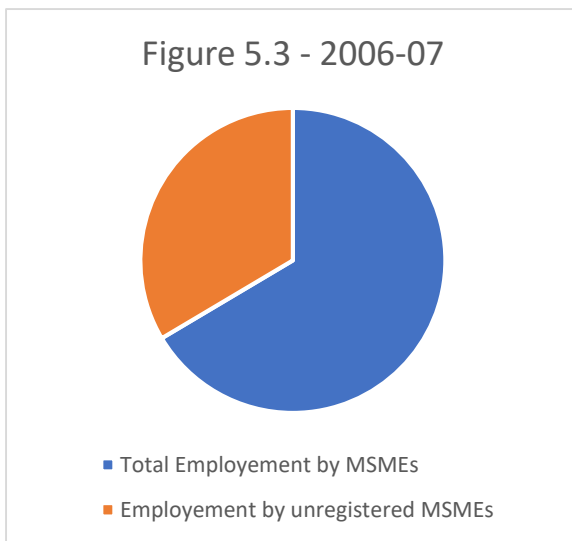
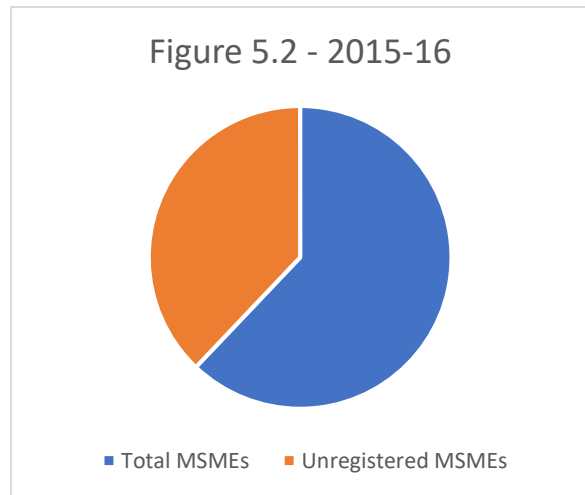
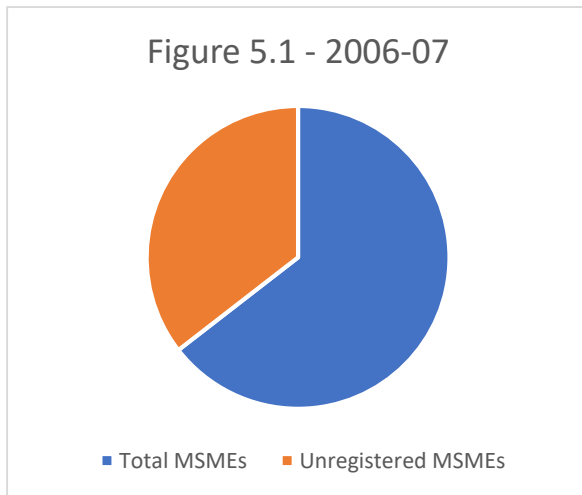
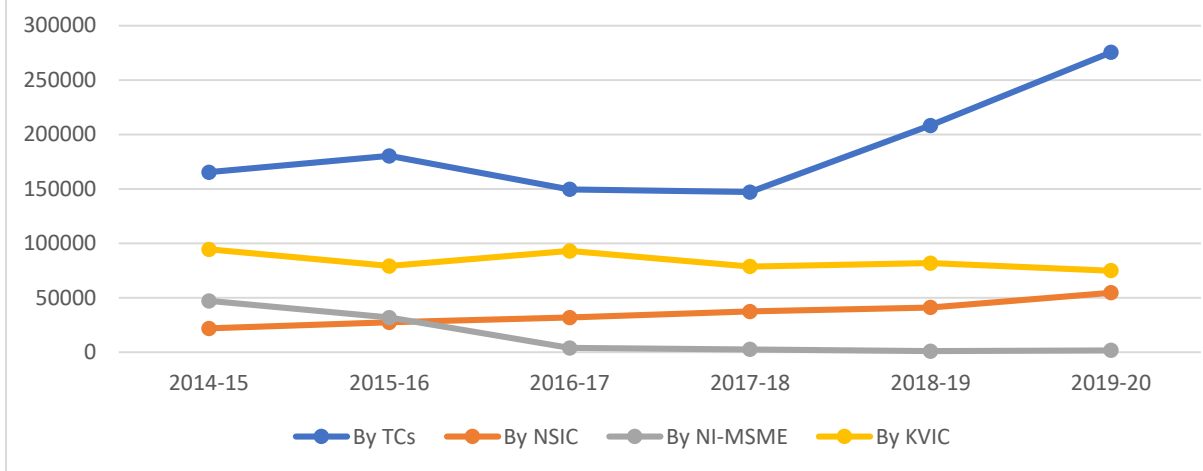


Table 6 - Skill Development programme Conducted by Government in Last 5 Years				
Year	By MSME Technology Centres (TCs)	By National Small Industries Corp. Ltd (NSIC)	By National Institutes (NI-MSME)	By Khadi & Village Industry Commission (KVIC)
2014-15	165353	21860	47136	94522
2015-16	180349	27455	31874	79286
2016-17	149537	31958	4051	93041
2017-18	147033	37459	2608	78841
2018-19	208174	41201	990	81906
2019-20	275361	54624	1740	74938

Source:-Annual Report MSME 2020-21

Figure 6 - Skill Development Programme Conducted by Government



Source:- World Bank Report 2017, Annual Report MSMEs

The employment capacity of micro and small units is very limited and hence overall production is also capped at low level. The number of sick units in the country had started rising from 2006-07 and in the period of Covid the graph has risen very sharply. Table 4 and figure 4 are showing number of sick units in total MSMEs over a last decade. So far as the ratio of unregistered firm to total firms is concerned. Kerala has been doing very well because the Government is not allowing its function towards public to be replaced by the private sector and therefore it is for everyone to see that in political campaigning in Kerala, employment is never the issue. Table 5 & figure 5 is showing the total number of unregistered MSMEs and their contribution in employment. The Government of India has given up the work of making 5 year plans after demolishing the planning commission. The estimates of employment and unemployment are hardly being calculated by any of the States and Government of India. The Problem of employment can be solved when MSMEs will be given importance in contributing the Gross value added (GVA). Which is the measures for standard of living, consistent growth and the inflation. The Government of India has recently endeavoured to incentivised the companies trying to engage themselves in electronic, textiles and other manufacturing goods by giving them 4-6% as fiscal benefits called as PLI (Production linked Incentive). The purpose was to invite the companies to make investment in the country but as far as the wages are concerned, the Government has come up with the labour laws only last year and it is how the skilled labour is being trained and getting hot employment but the cherrypicked industries in thirteen sectors is not going to help the medium trained people across the country. If the status of MSMEs is to be matched by the skill development programmes conducted by the Government, one can see that barely 280000 people have been provided skill and the nature of skill, quality of skill and duration of the programme is not known at all. The quality of MSMEs is dependent upon the promotion of entrepreneurship supported by the Government because the private sector cannot contribute in the entrepreneurship development. The structure of education in the country is more skewed towards the general education and the professional education like engineering courses also contain the larger content of general education lacking practical training. The only certificate courses and diploma courses, if these are developed in required manner, can fulfil the requirement of skilled labour force to meet the demand of the aspiring entrepreneurs to run the small enterprises in the country. The skilling is becoming difficult every day because the rural populations are ignorant about the prospects of the children and therefore their educational standards have not been improving over the years. The school passed out children in rural area are not considered fit to take training from ITIs and Polytechnics. After liberalisation, the Government have stopped creating technical institutions and the responsibility had fallen on the private sector where the practical training is just mentioned in their curriculum but no exposure have been given to the student those who have enrolled with them. The few leading states have cared to ensured that the apprenticeship

programme goes with their plan to get the maximum return from MSMEs and therefore employment generation is not an issue in these leading states. The states performing poorly on MSMEs are the one where technical institutions are left to be run by the private sector. Over the years the role of ITIs has been taken over by the public sector companies and they are spending out of their profit on these ITIs but the results are far from satisfactory. Table 6& figure 6 showing the details of skill development programme being conducted by Government.

Literature Review:-

Khan, Dr. Mohd. Asif (2011) have studied the importance of MSMEs to achieve sustainability in economic growth and development of country. MSMEs not only catering to large population of country by providing earning opportunities but also providing thrust to Indian economy by promoting entrepreneur activities and creating employment opportunities in backward and rural areas as well maintaining balance and sustainable growth.

Garg, Bhumika (2014) found in her study that MSME sector is major constituent and most prominent sector in economic growth, labour absorption and in overseas export. This sector needs to be nurtured effectively and carefully to provide with necessary technological upgradation and financial support. The Government should adopt a proactive and more flexible and effective approach to ensure long term sustainability of MSMEs in fast changing and growing economic scenario.

Syal, Subina (2015) has highlighted the importance of MSMEs in the economic growth. She has focused on providing subsidies and necessary relaxation to MSMEs in their incurring cost to upgrade and modernise their technology and infrastructure. This will help them to boost their production and will strengthen them with necessary confidence to compete in the global market. Necessary platform and forum shall be introduced where the micro enterprises can learn the new technique and can upgrade themselves with marketing tools to fetch the required volume of business.

Singh, Anup & NA, Venkata (2017) have revealed the importance of MSMEs in the developing country to mitigate poverty and to provide thrust in sustainable and uniform growth. They need Government support to overcome various hurdles and constraint that curb their success viz. accessibility to adequate credit , labour availability, skills and training. They emphasize on encouraging financial institution to support MSMEs by bridging the gap between their demand and credit availability.

Suhaili, Muhammad & Sugiharsono (2019) of Indonesia have analytically studied the contribution of MSMEs in employment and GDP of the their country by collecting data from central statistics agency. They have found in their study that the more than 97% of work force in the country is absorbed in MSMEs while their GDP contribution in overall GDP of the country is around 59%. Since the role of MSMEs in country growth is very crucial so the policy makers are advised to support MSMEs with more business favourable policies for further development on productive volume and product quality to make them capable to compete in international economic community.

Objectives:-

1. To investigate the reasons for dampening effect on GDP.
2. To study the factors responsible for employment generation.

Conclusion:-

The survey conducts by the authors indicates that education up to 10th and 12th level has to be given reasonable priority and then ensuring that the flow of students in technical education and general education should have an

acceptable ratio. But when the general education quality is not controlled by the Government then definitely rush for general and professionally cooked institutions will be very high which is serving no good purpose to the nation. When the per capita income is not even 2000 USD per annum and roughly 50% of the total work force is engaged in MSME, it is not difficult to conclude that the pass out from the schools are just spending their time as delivery boys or security guards or domestic/business workers. It is very surprising that after 30 years of liberalisation, the states of MP, UP and Haryana are reserving the jobs in the private sector for their domicile people and the situation has reached to such a grim reality because the States have no control on education and training system. There has been a concern that employment generation should be a continuous process in order to maintain the growth momentum till the growth is saturated. During the last three decades, though there is a spurt in the growth but growth is skewed towards corporate sector which is expected to be capital intensive and employment elasticity is close to zero. There was tremendous scope of MSME to fill the gap for employment. But ironically, it could not be happened because the promoters are always interested in limiting the space and technology to as minimum as possible and these work places are very narrow and dwarfed. There is hardly any seasonality in the training environment because education system is distorted across the rural area and hence the training culture has not been created with a view to give fillip to MSME. The labor entering in to labor force to be absorbed in MSME barring few is not adequately trained and hence enhances of employment paying them decent wages are bleak. It is the reason that export by MSME continues to be unsatisfactory as shown in the table and low level of wages corroborates with the low productivity and hence per capita growth and overall GDP floats at lower level because deepening of the production activities is resisted by the availability of workers.

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