



PERFORMANCE OF INDIAN MSMES

DR. P. SAIRANI

Head, Department of Finance,
ICBM – School of Business Excellence
sairani@icbm.ac.in

ANNIE KAVITHA

Assoc. Professor, Dept. of Finance,
ICBM – School of Business Excellence
anniekavitha@icbm.ac.in

ABSTRACT

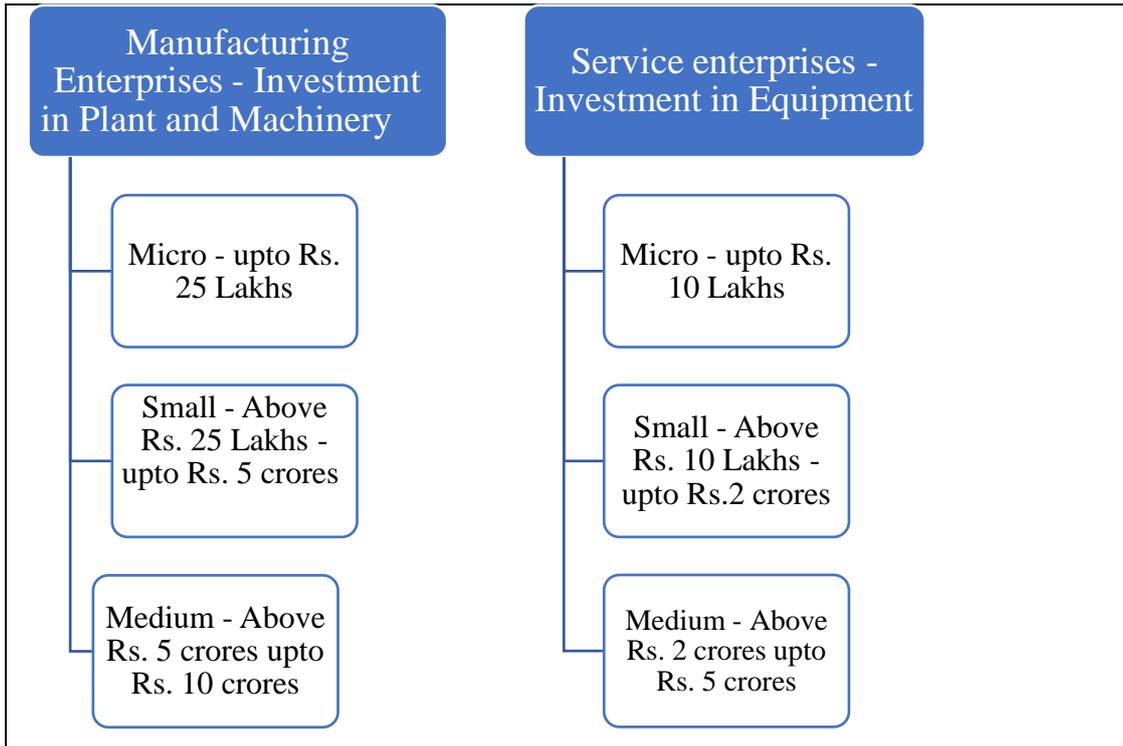
To achieve Economic development of India, the Government of India with the Reserve bank of India aimed at providing financial assistance to those neglected sectors of the society which have the potential to grow. In the year 1968 the National credit council emphasized that credit should be provided to the neglected sectors called as priority sectors. Agriculture sector and Small-scale industries were identified as priority sectors. The objective of priority sector lending was to assist in economic development by improving the status of people in these priority sectors. As a part of this banks were advised to provide credit to the priority sectors and eventually made it mandatory for all the banks to provide credit as a percentage of the total bank credit. Narayana (2000) in his paper observed that post nationalization of commercial banks in India in 1969, the rural areas and non-banked areas were benefitted as many commercial banks expanded into these areas, lending to agriculture sector and small firms for almost two decades and the beneficial impact was seen. The purpose of this paper is to observe how MSMEs played a significant role in contributing to the economy in terms of the number of units started, employment generated by these units, increase in the production and helping in increase in exports

Keywords: *Micro, small and medium enterprise, Priority sector lending, economic development*

Introduction

MSME Definition: The Micro, small and medium enterprises development (MSMED) Act, 2006 has defined MSME based on the investment made in plant and machinery and equipment. The objective of priority sector lending was to provide financial assistance to not only start small firms but to also assist in the working capital requirements. Small Scale industry was seen as having the potential to boost the economy for its growth. Over the past 50 years MSME has emerged into a vibrant sector contributing to the growth of the economy by effectively utilising the available resources, bring in balanced regional development, create demand for the products, increase in production, increase in incomes and improvement in the standard of living.

Target for MSME under priority sector lending: 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.



The Act has renamed small scale industries as 'Micro, small and medium enterprises' broadening the range of enterprises such as Khadi and village industries, that are included under the sector.

Objective:

The objective of this paper is to observe contribution of MSME sector over the years for the contribution to the growth of economy which were subject to many changes and recommendations

Literature Review:

Rao, Das and Singh (2006) mentioned in their paper that credit to SSI sector was reviewed by various committees and was observed that the credit flow has increased. It was observed that despite the increase in credit to SSI its share in bank credit decreased during the period 1992-2003.

Rao et al (2006) from their study for a period from 1991 – 2004 observed that though the scope of Small-scale industry was revised to make the credit accessible to SSIs, the credit sanctioned by the scheduled commercial banks decreased. This could be due to the NPAs arising out of these advances.

Siggel and grawal, (2009) based on a primary data collected from the small firm owners concluded that economic reforms of 1991 have indeed helped them to have an increased access to foreign technology, availability of capital goods and raw material at lesser costs.



Kushnir, Mirmulstein and Ramalho (2010) in a descriptive statistical analysis observed that in economies with high income MSMEs are registered and formal and in economies with low and middle incomes MSMEs are on the rise at a faster pace. The definition of MSME varies across the countries depending on number of employees. They also observed that MSMEs find access to credit as an obstacle than the large firms.

Laha (2014) has mentioned that banking policy and priority sector lending helped MSEs by providing them credit in the pre-liberalisation period but in the post liberalization period these MSEs are affected due to the reorientation policy of Priority sector and the share of MSMEs in the total priority sector lending was decreasing.

Munda and Swain (2014) opined that not all MSMEs are registered with the govt. of India and due to this the actual position of employment and requirement of finance cannot be assessed accurately.

Biswas (2014) opines that MSMEs face difficulty in raising finance from banks and financial institutions in spite of many programs taken up by govt.

Shastri, Tripathi and Ali (2014) have highlighted the impact of liberalization on SSI and mentioned that SSI will have to face competition both at domestic and international level in terms of cost, quality and products and can sustain only if ideal investment is made in technology, production process, R&D and effective marketing.

Anand (2015) opined in his paper that by providing financial literacy to small entrepreneurs the opportunities that exist globally can be exploited and the problem of unemployment can be solved to a large extent.

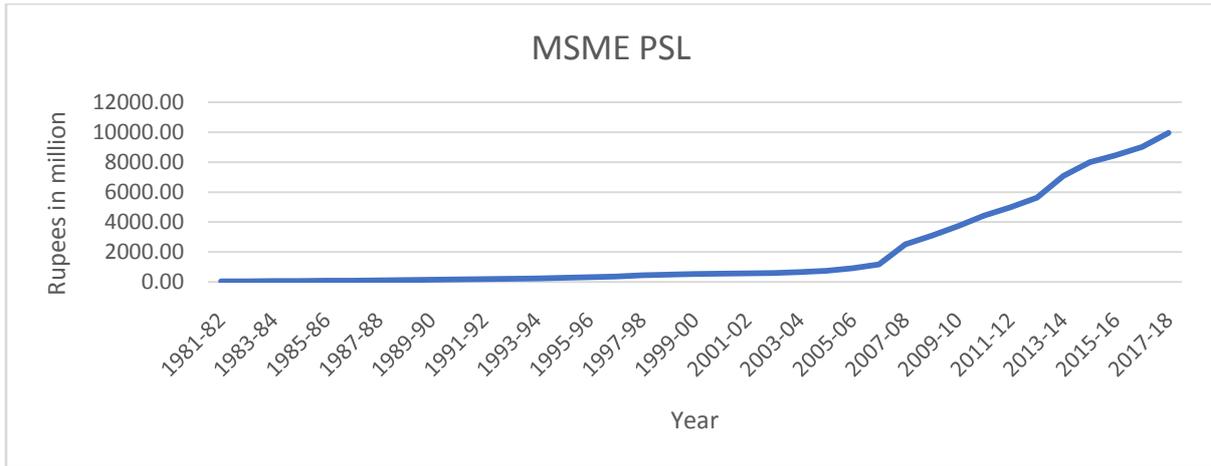
Nikaido, Pais, Sarma, (2015) in their paper with the help ofprobit, identify the favourable factors for receiving formal credit. These factors are more formal and transparent firms, firms that are large in size, and firms whose owners are educated and those that are into diversified activities. of the firm and firms that are registered have a higher chance of receiving formal credit. On the other hand, the factors that hinder enterprises from receiving formal credit are identified asloans that use land as a collateral, less-educated owners, female owners, and those that are located in the north-eastern region of India. The authors also suggested that necessary corrective actions should be taken to remove these constraints and for an enhanced credit supply in India.

Shaik, Ramesh, Kumar, Babu, (2017) in their paper mentioned that the contribution of service sector, MSME to GDP during the years 2006 to 2013 was growing lower.

Methodology:

The study considers secondary data collected from RBI, Annual reports of MSME. The study involves trend analysis.

MSME - PSL



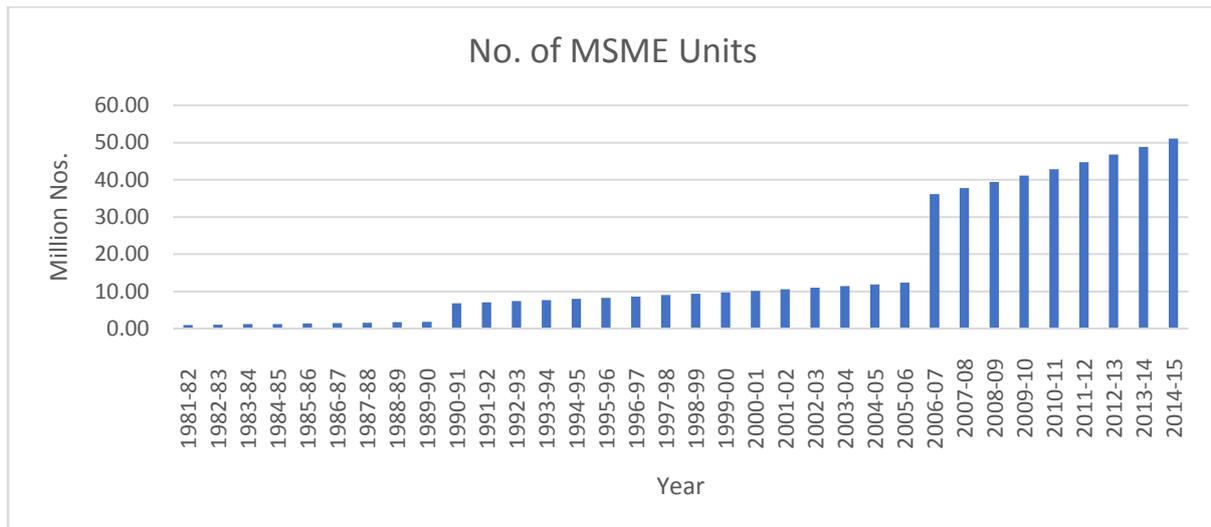
(Source: Handbook of Statistics)

From the above it is observed that The MSME Priority sector lending was in increasing trend after the financial inclusion was initiated in 2004.

Performance of MSME Sector:

MSMEs play a significant role in contributing to the economy in terms of the number of units started, employment generated by these units, increase in the production and helping in increase in exports. Eastwood and Kohli (1999) examined the investment pattern in small scale industry for the period 1965-78 and observed that small and large firms were able to obtain external credit required for a new business proposal. This is the result of the directed credit policy which was well conceived by the firms and became successful.

Number of MSME units:



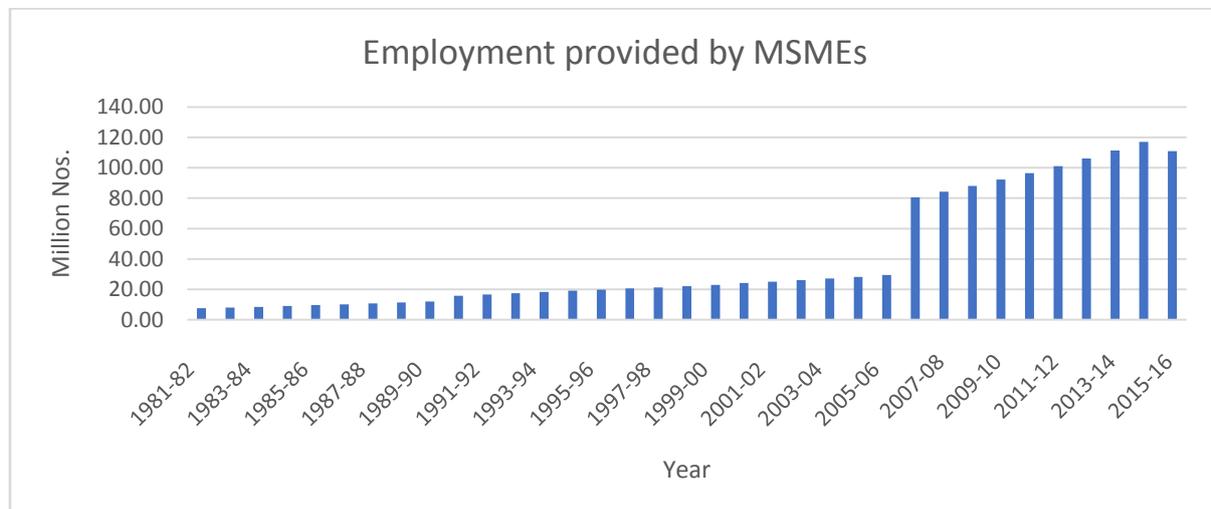
(Source: Handbook of Statistics)

There is a gradual increase in the number of MSME units over the period from 1981-82 to 2014-15 except in 1990-91 and 2006-07. In both these periods the increase was three times. The year 1990-91 saw a major change in priority sector lending as the Narsimham committee relaxed the target of 40% lending to priority sectors was brought down to 10%. The objective set for banks was profitability and not social benefit. This led to an increase in lending to small units and there was a 300% increase in the number of units started though the priority sector lending did not increase in the same pattern. Another major change caused was in the year 2006-07 when the concept of SSI was change to MSME and the scope was broadened. Almost 300% increase in the number of units was observed.

Shabbir (2013) in a comparative analysis of advances by Scheduled commercial banks and Public sector banks to agriculture and Small-scale industries from 1969 to 2011 to understand achievement of the targets of priority sector lending observed that in case of small-scale industries, the overall rate of lending was higher before nationalization of banks but the growth was modest after that. PSBs have extended more credit to SSI more than the SCBs during the period. The growth in lending to SSI has increased from 2004 to 2007 indicating that there is positive impact of the banking reforms towards SMEs announced in 2005.

Employment generated by MSMEs:

Alamelu and Baskaran (2011) from their study observed that across the countries MSMEs create more jobs than the larger firms. (Kaur, 2017) in her analysis found that MSME sector shows immense potential and contributes positively to the growth of the economy by providing employment.



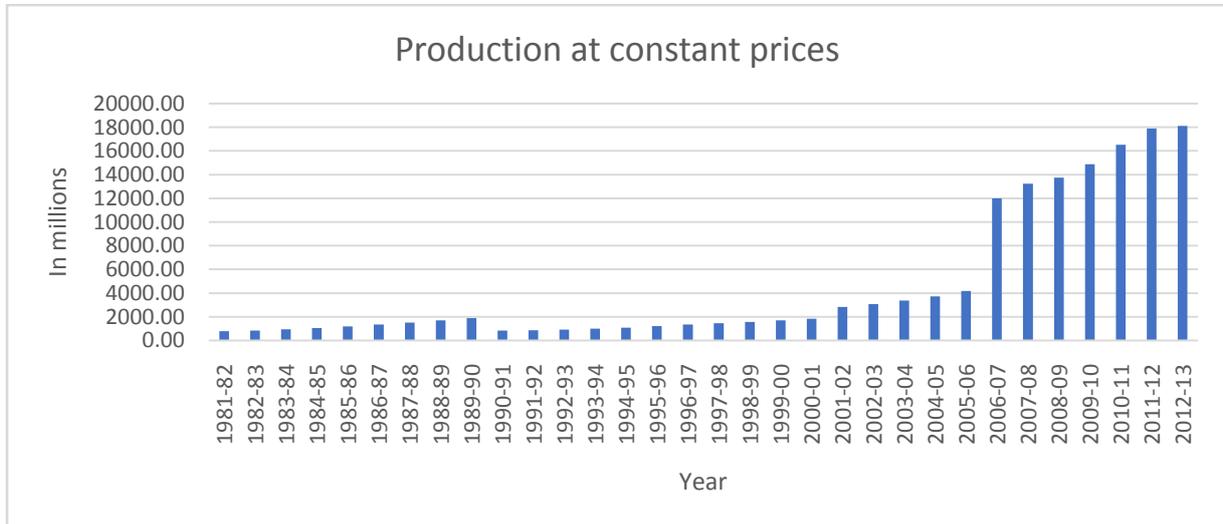
(Source: Handbook of Statistics)

MSMEs have helped the economy by creating jobs and a consistent growth rate was observed over the years. There was a drastic increase in the employment provided in the year 2007-08 as the number of units started increased which was observed in the previous graph.

Garg and Walia (2014) in their study from 2001-2010 observed that the contribution of MSME to the economy in terms of GDP, employment generation and exports is

significant. Sharma and Afroz, (2014) in their paper highlighted that MSMEs have contributed to the growth of domestic Indian economy, helped in generating employment opportunities despite not getting adequate support from policy framework.

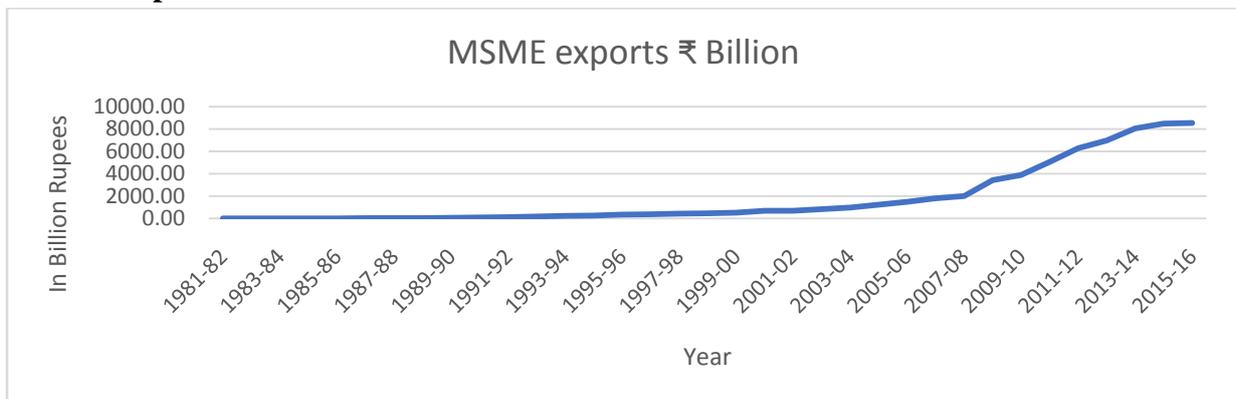
MSME Production (at constant prices):



(Source: Handbook of Statistics)

The production of MSME sector has improved drastically after widening the range of enterprises included in the MSME sector from 2006-07 onwards.

MSME Exports:



(Source: Handbook of Statistics)

Exports of MSME products also boosted from 2006-07 after redefining the SSI as MSME. Banerjee, Cole and Duflo (2013) categorized three different types of firms for the purpose of lending. First, the profitable firms and lending to these firms will enable the banks to make more profits. Second, marginally profitable firms which started making profits after incurring losses. Such firms can be considered for lending based on the existing rules. Third loss making firm with a track record of making losses for a long period should not be considered for lending.

Das (2017) opined that for the MSMEs appropriate strategies should be framed so as to enable them to face global competition.

Challenges faced by Indian MSMEs:

Though MSMEs play a vital role in industrialization and economic growth, still face many challenges such as allocation of funds by the government to the sector, high transaction costs in availing the loans, access to banks, inadequate infrastructure, and other regulatory issues.

Venkatramaniah and Ramakrishnaiah (2017) in their paper observed that the amount allocated out of the total outlay for development to MSMEs during the 12 five-year plans was almost less than 1% with exceptions in second, third and twelfth plan. Though the funds allocated are less than 1% of the total outlay for development, the growth in respect of MSME units, the investment made, production, employment generated have increased. Raman (2012) concluded in his paper that access to credit can be provided to everyone in the economy by providing financial literacy and thus participate in financial inclusion.

Future of Indian MSMEs:

MSMEs are considered as a key to the engine of economic growth. According to the National sample survey (NSS), 73rd round, MSMEs have provided millions of jobs during the recent years, increased the production, boost the exports and contributed to the GDP.

The ministry of MSME has initiated the following to boost MSMEs:

- (i) Set up a Scheme of Fund for Regeneration of Traditional Industries (SFURTI) that organizes traditional industries and artisans forming them in clusters to enhance their skills and face competition.
- (ii) Setup a Scheme for Micro & Small Enterprises Cluster Development Programme (MSE-CDP) to build the capacity of MSEs in the country.
- (iii) Setup credit subsidy schemes to support MSMEs
- (iv) Setup a Credit Guarantee Trust Fund for MSEs (CGTMSE) that provides collateral free credit facility for both term loans and working capital.
- (v) Other initiations like helping the weaker sections etc.

(Source MSME Annual report 17-18)

Limitations:

The study is limited to MSME sector among the many sectors of priority sector lending.

Conclusion:

The performance of MSME over the years and through many changes and revisions shows an improvement in terms of the number of MSME units started, employment provided by the sector, increase in production and increase in exports with an increase in the MSME PSL.

References:

1. Anand, B. (2015). *Reverse Globalization by Internationalization of SME's: Opportunities and Challenges Ahead. World Conference on Technology, Innovation and Entrepreneurship, 195, 1003-1011.*



2. Afroz, R. S. (2014). *Growth and Performance of MSME's in Present Scenario for the Development of India. International Journal of Interdisciplinary and Multidisciplinary Studies*, 136-143.
3. Banerjee, Abhijit, Shawn Cole, and Esther Duflo. 2003. "Bank Financing in India." Photocopy. Department of Economics, Massachusetts Institute of Technology, Cambridge.
4. Baskaran DA. *MSMEs: The Key to Entrepreneurship Development in India. Bonfring International Journal of Industrial Engineering and Management Science*. 2011; 1:11-13.
5. Biswas, A. (2014a). *Financing Constraints for MSME Sector. International Journal of Interdisciplinary and Multidisciplinary Studies* 1(5): 60–68 Eastwood, R., & Kohli, R. (1999), *Directed Credit and Investment in Small Scale Industry in India: Evidence from Firm-Level Data 1965-78, Journal of Development Studies*, 35, 4.
7. D.Narayana. (March 2000). *BANKING SECTOR REFORMS AND THE EMERGING INEQUALITIES IN COMMERCIAL CREDIT DEPLOYMENT IN INDIA. Thiruvananthapuram: Centre for Development Studies*.
8. Kaur, G. (May, 2017). *ECONOMIC REFORMS AND MICRO, SMALL AND MEDIUM ENTERPRISES. International Journal of Research - Granthaalayah*, 394-404.
9. Kushnir, Khrystyna, Melina Laura Mirmulstein, and Rita Ramalho. 2010 *Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What Affects the Count? IFC*.
10. Laha, A. (2014). *Access to Credit to Micro, Small and Medium Enterprises and Its Determinants in India : An Inter-State Analysis. Vidyasagar University Journal of Commerce* 19: 60- 71.
11. Munda, S. K. and Swain, S. (2014). *Micro, Small and Medium Enterprises (MSME) in India; Financing by Banks. International Journal of Business and Management Invention* 3(1): 07- 16.
12. Najmi Shabbir (2013), "Sector-wise Priority Sector Advances in India", *International Journal of Research in Social Sciences*, Vol.3, Issue No.2, pp.57-71
13. Nikaido Y., Pais J. & Sarma M. (2015). *What hinders and what enhances small enterprises' access to formal credit in India? Review of Development Finance*, 5 (1), 43–52.
14. Parthajeet, D. (2017). *Micro, small and medium enterprises (MSME) in India: Opportunities, issues of challenges. Great Lakes Herald*, 11(1), 77-88.
15. Raman, A. (2012) *Financial Inclusion and Growth of Indian Banking System, IOSR Journal of Business and Management (IOSRJBM)*, Volume 1, Issue 3, May-June, pp. 25-29.
16. Rao, K.S.R.; Das, A.; and Singh, A.K. (2006), *Commercial Bank Lending to Small-Scale industry Economic and Political Weekly*, Vol. 41, no.11, March
17. Siggel Eckhard, Agrawal Pradeep (2009), *The Impact of Economic Reforms on Indian Manufacturers: Evidence from a small sample survey, Asian Profile*, Vol. 37, August 2009
18. Shaik, M, Ajaykumar, K, Ramesh, K.V and Babu, G., *Performance of MSME's Sector in India (March 3, 2017). SSRG International Journal of Economics and Management Studies (SSRG-IJEMS) – volume 4, issue 3, March 2017. Available at SSRN: <https://ssrn.com/abstract=2963801>*
19. Shastri, R.K., Tripathi., & Ali, M. (2011). *Liberalisation and its impact on small scale industries. International Journal of Vocational and Technical Education*, 2(7), 81-83, (October).
20. Walia, I. G. (2014). *GROWTH & PERFORMANCE OF MICRO, SMALL & MEDIUM ENTERPRISES (MSMEs) IN INDIAN ECONOMY. International Journal of Research in IT & Management*, 36-47.