

# Role of MSMEs in Indian Economy and the need for its development in Assam.

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## Abstract:

The small-scale industry evokes different meanings for different agencies and different financial institutions. The Micro, Small and Medium Enterprises Development Act, 2006 was enacted by the Govt. of India to establish a National Board and to clearly define the role of MSME in our country's economy. The small-scale sector has been assigned an important role in the economy of the nation on account of some of its inherent advantages like low capital intensity, high employment generation capacity, regionally balanced development and even distribution of wealth and income. The government is also making all efforts to provide a conducive atmosphere, level playing ground and policy support to enable the SSIs sector to achieve higher level of production and employment throughout the nation including in Assam. However, unorganized nature of the micro, small and medium enterprises has plagued it with problems of raw materials, labour, finance, marketing, power, infrastructure facilities and under utilization of capacity. Research indicates that finance and marketing are the two chief problems that affect the MSMEs in the study area.

**Keywords: industrial, economy, finance, marketing, MSME, institutions.**

## INTRODUCTION

The most important factor for economic development of any country is its industrialization. In developing countries like India, small-scale industries are especially important in content of employment opportunities, equitable distribution of National income, balanced regional growth and development of rural and semi-urban areas. That is why this sector has often been termed as the "Engine of growth" for developing countries. In India, the contribution of MSMEs in GDP is 6 %, 33 % in manufacturing sector and 45 % in exports. According to MSME Annual Report 2016-17, the number of MSMEs and employment in MSME sector are 512.99 lakhs and 1112.28 lakhs, respectively. MSMEs are those industries whose capital is supplied by the proprietor or through means like partnership or from financing agencies, setup for this purpose etc. These industries can be managed with little resources and in terms of returns provide much better results. Thus, the Government has accepted the development of micro enterprises as a strategy for employment generation and promotion of income generating activities. In a backward state like Assam, small scale industries have a big role to play.

## REVIEW OF LITERATURE:

Barman and Das (2014) made empirical study on the performance of KVI's in India during the period 1994-2010 with respects to the performance variables like production, employment and sales. The statistical tools like percentage, compound growth rate and correlation co-efficient have been used to study the association between the variables. Also, the projection has been made in respect of the performance variables through the use of least square principles. The study reveals that compound growth rate of employment, output and sales are 5.022 per cent, 11.023 per cent and 28.846 per cent respectively per annum. However, there exists strong positive correlation between the performance variables.

Ruddardatt and K.P.M. Sundharam (2006) stated that small enterprises need to be developed along with large enterprises. This is also the accepted argument of the Government. From a long point of view, the capacity of small manufacturers to become technically progressive and efficient and develop competitive strength shall be the only justification for their continuance.

Bhaskar, N (2009) also made empirical study on the performance of MSMEs in Tamil Nadu. He analyzed the performance by using statistical tools like graphs, correlation and multiple regressions and found that MSMEs had exhibited a good performance in the study period (1991-92 to 2008-09) in terms of number of units, investment and employment. The study revealed that the good performance was the result of subsidies provided to the micro enterprises by the Government.

Biswajit Das & Kandarpa Kr, Barman (2013) in their paper comprising a study on micro enterprises in Hajo Development Block, Kamrup (Assam), in relation to development, problems and prospects opined that the most essential facilities for industrial growth like power supply, raw materials, marketing of products, adequate capital and supply of labour, technical know-how etc. have not yet crossed the minimum threshold, which is still a major obstacle in the development of micro enterprises in the Hajo Development Block.

P.K. Dhar (2016) observed that the prospect of micro enterprises in Assam is quite bright. But the ultimate success of economic reforms in promoting them in the State depends finally on the improvement of law and order situation of the State which will simply create suitable environment conducive for industrial development of the State. Moreover, local entrepreneurs should come forward and participate actively in the industrialization process of the state.

### OBJECTIVES OF THE STUDY

1. To know the status of MSMEs in India and its prospects in developing Indian economy.
2. To study the need of developing MSMEs in Assam
3. To know the problems related to MSMEs.

### METHODOLOGY

Data used in the study are secondary in nature and mostly collected from the annual reports published by the Ministry of Micro, Small and Medium Enterprises, Economic survey of Assam, and Statistical hand book of Assam. Four parameters namely No. of Units, gross-output, employment and investment, and fixed assets have been used for performance analysis of MSMEs.

### NEED AND IMPORTANCE OF STUDY:

According to the annual report submitted by the Ministry of MSME 45 per cent of the total exports of the country is contributed by MSMEs. The report also indicates that most of the MSMEs are unregistered. On the whole there are 1.6 million registered MSMEs in India. Distribution of registered enterprises in urban areas account to nearly 8.57 lakhs of total active enterprises which occupy a share of 54.77 per cent, whereas rural areas account to 7.07 lakhs (45.23 per cent of the working enterprises). We can clearly see that to have a equitable progress with the rest of the nation we should strive for the growth and development of MSMEs in Assam as well.

MSME generates employment opportunities. As per the annual report of Ministry of MSMEs there were near 362 lakhs enterprises in the year 2006-07 providing around 805 lakhs employment and it has increased to 510.57 lakhs enterprises and 1,171,323 lakhs employees in the year 2014-15 which is an increase of 45.5 per cent in employment and 41 per cent in No. of working enterprises.

Table-1: MSMEs and Employment Opportunities

Sl.No.	Year	Total Working Enterprises ( In Lakh)	Employment ( In Lakh)
1	2006-07	361.76	805.23
2	2007-08	377.36	842
3	2008-09	393.7	880.84
4	2009-10	410.8	921.89
5	2010-11	428.73	965.15
6	2011-12	447.64	1011.69
7	2012-13	447.54	1061.4
8	2013-14	488.46	1114.29
9	2014-15	510.57	1171.32

Source: Annual Report FY 2015-16, Ministry of Micro, Small And Medium Enterprises, Govt. of India.

MSME sector constitutes an inevitable portion of our nations GDP and for this reason it needs attention of the policy makers. The statistics shows that the contribution of MSME to GDP is ever increasing. The table given below explains the percentage share of MSME in the nation's GDP over the Years.

Table-2: Share of MSME in Gross Domestic Product (GDP)

Year	Gross Value of Output of MSME Manufacturing Sector (Rs. In Crore)	Share of MSME Sector in Total GDP (%)			Share of MSME Manufacturing Output in total Output (%)
		Manufacturing Sector MSME	Service Sector MSME	Total	
2006-07	1198818	7.73	27.4	35.13	42.02
2007-08	1322777	7.81	27.6	35.41	41.98
2008-09	1375589	7.52	28.6	36.12	40.79
2009-10	1488352	7.45	28.6	36.05	39.63
2010-11	1653622	7.39	29.3	36.69	38.5
2011-12	1788584	7.27	30.7	37.97	37.47
2012-13	1809976	7.04	30.5	37.54	37.33

Source: Annual Report FY 2015-16, Ministry of Micro, Small And Medium Enterprises, Govt. of India.

MSMEs are operating in a wide variety of sectors such as manufacturing, trade and services and thereby constituting a large portion of the Indian economy. As per the MSME annual report of Financial Year 2011-12 published by Ministry of Micro, Small and Medium Enterprises, MSME contributes 37 per cent of the total manufacturing output, also MSMEs are experiencing a considerable increase in investment flows. Following graph shows the contribution of MSME towards Industrial production.

Figure-1: MSME Investment and Gross Output (Rs. In Billions)



Source: Annual Report FY 2012-13, Ministry of Micro, Small And Medium Enterprises, Govt. of India.

## IMPORTANCE OF MSME IN ASSAM'S ECONOMY

MSMEs have a very significant role to play in the State's economy. Assam has always been an agriculture dependent state. Assam cultivators and agricultural labour together account for 65.8 per cent of total working population, whereas workers of manufacturing and other household industries constitute 2.8 per cent of the total workers of the state. However, according to recent analysis, Assam's economy is showing signs of improvement. In 2001-02, the economy grew ( at 1993-94 at constant prices) at 4.5 per cent; and fell to 3.4 per cent in the next financial year. During 2002-04 and 2004-05 the economy grew ( at 1993-94 at constant prices) more satisfactorily at 5.5 per cent and 5.3 per cent respectively. Sector analysis however exhibits a dismal picture. The average growth rate of agriculture, which was only 2.6 per cent per annum over 1998s has unfortunately fallen to 1.6 per cent in the 1990s. Manufacturing sector has shown some improvement in the 1990s with a growth rate of 3.4 per cent per annum than 2.4 per cent in the 1980s.

The sector wise classification of Industries as prepared by NEDFi in Table-3 has demonstrated the role of Micro enterprises in Assam is highly significant in terms of number of units and employment generation.

Table-3: The Number of Enterprises Memorandum issued to MSMEs in Assam (2008-09)

Variables	Micro Enterprises	Small Enterprises	Medium Enterprises	Grand Total
No. of Units for the year 2008-09(No. of units)	1467 (89.95)	153 (9.39)	11 (0.66)	1631 (100)
Production value for the year 2008-09 (Rs. In Lakh)	12293.33 (25.04)	35386.5 (72.12)	1397.27 (2.48)	49077.1 (100)
Employment generation for the year 2008-09 (In Nos.)	6975 (60.34)	3522 (30.46)	1063 (9.2)	11560 (100)
Investment on per month for the year 2008-09 (Rs. In Lakh)	2805.49 (11.19)	17146.65 (68.36)	5129 (20.45)	25081.1 (100)

Source : NEDFi Databank Quarterly on MSMEs, 2009-2010.

Note: Figures shown in the brackets represent percentages of the grand total.

The MSME sector has been able to provide employment opportunities to 1,88,454 persons during the period 1993-94 to 2010-11 in 38132 MSE Units. Table-4 shows that total investment made on MSE Units is estimated at Rs. 196214.67 lakhs from 1993-94 to 2010-11. The output growth is much more encouraging because it produces output worth of Rs. 484867.9 during the same period.

Table-4 : Numbers of MSE Units, Employment, Investment and Output in Assam (1993-94 to 2010-11)

Year	Numbers of MSE Units	Annual growth of nos. of MSE Units	Employment ( in Nos.)	Investment (Rs. In Lakh)	Output (Rs. In Lakh)
1993-94	2560	Nil	11828	2730.12	6718.36
1994-95	2303	-11.15	9972	2662.15	9141
1995-96	2729	15.61	10450	3568.23	6030.6
1996-97	2431	-12.25	10485	2054.29	9330.18
1997-98	2193	-10.85	8613	4849.16	7379.66
1998-99	2224	1.39	8089	5538.23	30230.75
1999-00	1821	-22.13	7107	3938.22	15460.71
2000-01	2116	13.94	10260	5292.77	37560.77
2001-02	2528	16.29	11538	488.95	16013.81
2002-03	2246	-12.56	11115	4868.94	16379.6
2003-04	2365	5.03	11795	7198.82	17976.9
2004-05	2067	-14.41	9396	7120.18	19698.2
2005-06	2082	0.72	10780	23776.88	22940.86
2006-07	2172	4.14	11852	9282.72	25514.67
2007-08	1692	-28.36	10471	26637.42	44720.97
2008-09	1711	1.12	12914	26348.26	49635.10
2009-10	1678	-1.97	12787	29901.68	58456.8
2010-11	1214	-38.23	9002	25557.59	91678.97
Total	38132		188454	196214.67	484867.9

Source : Directorate of Industries and Commerce, Govt. of Assam

## PROBLEMS OF MSMEs

Some of the key challenges faced by MSMEs are listed below:-

### 1. Scarcity of Resources:

One of the most important challenges faced by MSMEs in India is scarcity of Resources such as raw material and labour. Due to bidding corruption the Government invests the public resources in uneconomic high profile projects rather than necessary projects such as infrastructure development or development of rural India, which hinders the growth process and overall development of MSMEs located in such areas

### 2. Lack of Finance:

It has emerged as the most challenging barrier for perfect utilization and competing market in micro sector, MSMEs are not able to raise funds from banks and Government especially for high risk projects. Insufficient basic infrastructure facilities like irregular power and water supply, bad road and railway connectivity etc are some of the factors that lowers the growth process if MSMEs in India.

### 3. Lack of advanced technology:

One of the crucial factor that decides the success or failure of an Enterprise is the use of Technology for production. The owners of MSMEs are not aware of advanced technologies of production. Their methodology of production is outdated.

### 4. Bad Economic Environment:

Another external factor that hampers the growth of a small business is that corruption creates a bad economic environment in the country. A lot of money is spent on corruption activities and that money drains out the economy and thus leaves the country to face shortage of cash flow

### 5. Lack of marketing Assistance:

When it comes to marketing of products or services internationally, any small or medium company is always hit by its scarcity of budgets, which in turn limits its growth. A B2B (business to business) market is a platform where sellers can list their businesses free of cost and use the power of internet. But due to lack of technology and knowledge the workforce fails to explore the benefits of internet in today's era.

### 6. Competition from Multinational Companies:

In present era of globalization, the MSMEs are facing the greatest thread from the international manufacturing companies who are producing quality goods at the cheapest prices. It is very difficult to compete with these companies

### 7. Lack of Training and Skill development programs:

The training and development programs in respect of MSMEs development are very low. So, skilled man power is not available. The owners are aware of the innovative methods of production but the skill development schemes conducted by the Govt. are not sufficient.

### 8. Complex Labour Laws and Red-tape:

All the laws relating to different aspects of manufacturing and service concerned are very complex and compliance with these laws are practically difficult. Various decisions of factories depend on the factory commissioner and inspector, so there are many chances of red tape in the operations of MSMEs.

## CONCLUSION

It is no doubt that MSMEs have a big role to play in India's as well as in Assam's economy. To have an inclusive growth, Assam needs to go hand in hand with the nation in developing and supporting more MSME institutions. Too much dependency on agricultural sector is not very productive. Although MSMEs have a few problems its benefits far outweigh its short comings. The government should come forward by strengthening the infrastructure in the rural and semi-urban areas and improving the transport facilities, raw material facilities, providing more financial help in the form of loans by establishing more co-operative banks and also opening the branches of various other nationalized banks which could meet both the short term and long term credit needs of the existing and also the potential industries.

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