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Role of Micro, Small and Medium Enterprises for sustaining India's Growth

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ABSTRACT

MSMEs nurture entrepreneurial talent, in addition to creating employment and fostering industrial development in an economy. MSMEs are alleviating poverty around the world as well as increasing the social and economic participation of women, youth and minorities. Be it in erm development for India. When growth becomes stronger, SMEs gradually assume a key role in industrial development and restructuring. They can satisfy the increasing local demand for services, which allows increasing specialization, and further support larger enterprises with services and inputs. Hence, a modest attempt has been made to study the role of Micro Small and Medium Enterprise for sustaining India's Growth.

Key Words

Human Development Index, Sustainable Development, Economic Development, Global Integration, Global Competitiveness, MSMEs

Introduction

India has seen its global integration widen, resulting in its reaping the benefits in the form of high growth phase. The flip side is the impact of global downturns on Indian economy. After a continuous high rate growth period of above 8% the country is now transiting through a tough period of sub 5% growth phase for two consecutive years. This is the result of enlarged global integration. However no nation can stay long in isolation and grow forever. Even China has realized this and has prepared itself for these ups and downs. Developed and developing countries have equally realized the advantage of being integrated globally and China and South east Asian countries are visible examples that sustained growth is only possible through global integration. Though different countries have undergone the upside and flipsides of growth, each nation has to evolve its own strategy to live through the difficult times and build a strong foundation for capturing the opportunities after the lean period and get back into the high growth rate path. Strategies of each nation depend on its resources and capabilities along with its risk appetite. It also is dependent upon the stage of its economic development. While developed countries have higher sustaining capabilities against economic shocks, developing countries have this to a lesser extent and have to build over a long time. Factors like size of the country, political framework, demographics and social inclusion play critical role in the strategy formulation for a sustained growth. Global integration, Innovation and Inclusiveness are three main components of sustainable growth strategy of a nation. A nation's growth is reflected in the quality of life of its people. Development of a nation depends on the quality of growth: its composition, distribution and sustainability. High rates of economic growth do contribute to a nation's economic and social development. However mere high growth rates alone do not contribute in building a nation's economy. A long run sustainable growth rate is equally essential to a nation to move from growth path to development. Employment generation, innovation, well distributed economic activity across population, sectors, geography along with good governance lead to inclusive growth, bridging various divides in a nation thus fostering quality life. Economic growth is sustainable only when a nation is externally competitive and internally inclusive. Competitiveness meaning has changed over the time and World Economic Forum has evolved global competitiveness score to include social sustainability and environmental sustainability. One common thread in the growth strategies adopted by both developed and developing countries is the role of Micro Small and Medium Enterprises (MSMEs) becoming the engines for a nation's growth. MSMEs are the universal vehicles all over the world to achieve the goals of employment generation, inclusivity, innovation, distributed economic activity across population, sectors, geography and other critical factors needed for sustained growth leading to sustained development. This is made possible by the inherent nature of MSMEs. MSMEs are heterogeneous group encompassing a wide range of business activities, from the single artisan producing for the needs of a village market, the restaurant in a corner, the paan shop in a small town to a small sophisticated manufacturing or software firm selling exporting to overseas market and a medium-sized bulk drug units selling to multinational pharmaceutical companies in the domestic and foreign markets.

Objective of the Study

The study aims to

- Understand the concept of sustainability in growth and competitiveness.
- Role and impact of MSMEs in sustainability worldwide
- Examine and understand the role of MSMEs for India's sustainable growth
- Suggest and also consolidate specific/generic measures to overcome roadblocks to rejuvenate the economy through MSMEs.

Scope and Limitations of the Study

The study is limited to the advantages of MSMEs being the engines for sustainable growth. The aspects of growth in other nations through MSMEs have been taken as the base for the paper. It does not go beyond to cover the negative aspects if any in choosing MSMEs as growth engines. Further the limitation also lies in the assumption that what applies to one nation cannot be generalized to all nations and each nation has to suitably modify the model based on its requirements.

Sustainable Growth:

Means a rate of growth which can be maintained without creating their significant economic problems, especially for future generations. There is clearly a *trade-off* between rapid economic growth today, and growth in the future. Rapid growth today may exhaust resources and create environmental problems for future generations, including the depletion of oil and fish stocks and global warming

Developed Nations:

Which criteria are to be used and which countries can be classified as being developed are subjects of debate. Developed countries have post-industrial economies, meaning the service sector provides more wealth than the industrial sector. They are contrasted with developing countries, which are in the process of industrialization, or undeveloped countries, which are pre-industrial and almost entirely agrarian. According to the International Monetary Fund, advanced economies comprise 65.8% of global nominal GDP and 52.1% of global GDP (PPP) in 2010. In 2011, the ten largest advanced economies by either nominal GDP or GDP (PPP) are Germany, France, Japan, Italy, Canada, Spain, Australia, South Korea, the United States and the United Kingdom

Developing Countries

A **developing country**, also called a **less-developed country** (LDC), is a nation with a lower living standard, underdeveloped industrial base, and low Human Development Index (HDI) relative to other countries. There is no universal, agreed-upon criterion for what makes a country developing versus developed and which countries fit these two categories although there are general reference points such as a nation's GDP per capita compared to other nations. Also, the general term *less-developed country* should not be confused with the specific least developed country.

Sustainable Growth and Development

Human Development Report 1996 observed that during 1960–1992 not a single country succeeded in moving from lopsided development, with slow human development and rapid growth, to a virtuous circle in which human development and growth can become mutually reinforcing. Since slower human development has invariably been followed by slower economic growth, this growth pattern was labeled a “dead end.” History is full of examples where growth was achieved at the cost of greater inequality, higher unemployment, weakened democracy, loss of cultural identity, or overconsumption of natural resources needed by future generations. This kind of growth is inevitably unsustainable. Development happens when a house maid's children go to school and not only become literate but educated! When a driver's pregnant wife delivers a healthy baby in a proper hospital and both get post natal care and nutrition (and not after mortgaging whatever they own, for the rest of their lives). It means improvement in the quality of life of all the citizens of a nation. It is about accessing and availing quality education, healthcare, creation of ample economic activities, trade, commerce thereby increase in employment and reduction in poverty with improvement of a nation's per capita **income (Dr.Ipshita Basu Guha, 2011).** The wealth distribution may not be equitable and need not be so but the people at the "bottom of the social structure" must have a decent life. Creation of large number of economic activity can provide avenues for people to work and earn a decent living for themselves and their families, thus initiating true economic development. In order for development to continue indefinitely balancing the interests of different groups of people, within the same generation and among generations is essential. This should simultaneously be done in three major interrelated areas–economic, social, and environmental. Necessary conditions for sustainable development globally include eradicating extreme poverty, establishing and preserving peace in all regions and all countries, healthy and productive life in harmony with nature (**Tatyana P. Soubbotina).** Economic growth must be constantly nourished by the fruits of human development, such as higher qualified workers capable of technological and managerial innovations along with opportunities for their efficient use: more and better jobs, better conditions for new businesses to grow, and greater democracy at all levels of decision making. The structure of growth matters considerably for poverty reduction. Agricultural growth strongly benefits the poorest households, but does not directly address urban poverty. Broad-based rural development will depend on functioning markets currently, developed or underdeveloped. Establishing opportunities in both domestic and foreign markets will ultimately determine whether agriculture can generate and sustain pro-poor growth. Therefore, while high-value export-crops should be encouraged, they should not distract from the need to generate growth in staple crops (Thurlow and Wobst). A permanent structural change in African economies is needed that puts emphasis on value addition in exports through agro-processing and labor intensive manufacturing including agro processing export. Sustainable development has been defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. By linking economic development, protection of the environment and social justice, it aims at the continuous improvement of the quality of life and well-being for present and future generations, The components of sustainable development Indicators follows a gradient from the economic, through the social and environmental to the global and institutional dimensions: socioeconomic development, sustainable consumption and production, social inclusion, demographic changes, public health, climate change and energy, sustainable transport, natural resources, global partnership and good governance.

Sustainable Development and Global Competitiveness

Growth is dependent on market conditions. Sustainable development, meaning long term inclusive and balanced growth, requires widened markets making it inevitable to consider global markets as components for a nation's growth. For a nation to grow it is no more possible to grow in isolation. Global Integration is a must in the dimensions of Trade, Social connectivity and Thus Global Competitiveness is a key requirement for sustainable growth of a nation. Sustainable economic development is dependent on social and environmental sustainability. World Economic Forum made significant efforts over recent decades to devise methods and metrics for capturing the concept of sustainability. Mere competitiveness itself is not accepted for measuring a nation's competitiveness.

The concept of factoring in the social sustainability and environmental sustainability indices is adopted in Global Competitiveness Index (GCI) report 2012-13 (**Klaus Schwab)**. The report displays the ranking of nations in terms of mere Competitiveness and also the adjusted competitiveness score (after factoring in social sustainability and environmental sustainability indices) is also displayed against each country. India's ranking declined and registered a bad performance in all these parameters. India is the worst performer among the BRICs, with concerns in both areas of sustainability viz. social as well environmental. On the social sustainability adjusted GCI, India's performance is very bad in many components: like poor access to some basic services like sanitation to many of its citizens, high youth unemployment percentage, is very high vulnerability of even for those employed in absence of adequate official social safety nets. This makes the country vulnerable to economic shocks. In terms of its environmentally sustainable competitiveness, India also has some areas of concern such as its high agricultural water intensity and significant air pollution. China's competitiveness performance also is notably weakened once the sustainability measures are taken into account, especially in terms of environmental sustainability. Social sustainability is only partially measured for China, as the country does not report data related to youth unemployment or vulnerable employment. However, the available indicators show a somewhat negative picture, with rising inequality and general access to basic services such as improved sanitation remaining low.

India and Global Competitiveness

Following Table-1 shows the ranking of some nations in terms of Global competitiveness and adjusted ones too.

Table-1- Global Competitive Index and Adjusted GCI scores by sustainability indicators

GCI 2012-13			Social Sustainability adjusted GCI	Environment sustainability adjusted GCI	Sustainablity adjusted GCI	
	Rank	Score	Score Direction	Score Direction	Score	Direction
Switzerland	1	5.72	6.83	6.87	6.85	
Finland	3	5.55	6.45	6.26	6.36	
Sweden	4	5.53	6.17	6.15	6.16	
Netherlands	5	5.5	6.54	5.88	6.21	
Germany	6	5.48	6.37	5.92	6.14	
US	7	5.47	5.63	5	5.31	
UK	8	5.45	6.03	5.62	5.82	
Japan	10	5.4	6.1	5.42	5.76	
China	29	4.83	4.61	4.27	4.44	
Brazil	48	4.4	4.22	4.69	4.46	
India	59	4.32	3.7	3.75	3.73	
Russian	67	4.2	4.09	3.87	3.98	
Fed ration						

GCI score changes by > +15% to +20%

GCI score remains stable between +5% and –5% *GCI*

Note: ⇑ ⇒

From the above table we can observe that the countries ranked in top 10 in the table have better adjusted GCI(last column of the table) score than mere GCI (barring US which has a very slightly lower score after adjustment) whereas it is the reverse for China, India and Russia. Brazil’s score is in line with developed country because of good environment sustainability adjustment. This could be due to its good forest cover and steps taken for environment protection. The most revealing point is the performance of India being the worst in all aspects. It is the only nation that is having negative changes ranging from –5% to –15% in GCI and even adjusted GCIs. In adjusted GCI scores it has the least scores among the BRIC countries. This is highly disturbing.

MSMEs and Sustainable Development

MSMEs occupy a critical role in the sustainable development of many nations worldwide. They contribute to the inclusive growth everywhere. In OECD economies MSMEs account for over 95% of firms, 60-70% of employment, 55% of GDP and generate the lion’s share of new jobs. In developing countries, more than 90% of all firms outside the agricultural sector are SMEs and microenterprises3, generating a significant portion of GDP. Well-managed and healthy SMEs are a source of employment opportunities and wealth creation for any nation. They can contribute to social stability and generate tax revenues. According to the International Finance Corporation (IFC) a positive correlation exists between a country’s overall level of income and the number of SMEs per 1,000 people. MSMEs can constitute an important source of local supply and service provision to larger corporations through their extensive local knowledge of resources, supply patterns and purchasing trends. By working closely with MSMEs in developing nations, large corporations can develop a new customer base that may not be accessible to the traditional distribution networks of these corporations. MSMEs also represent an important source of innovation and follow competitive strategies that set them apart from other companies. This might include re-engineering products or services to meet market demands, exploring innovative distribution or sales techniques, or developing new and untapped markets. Local financial institutions that have successfully served the SME market in developed countries have found it highly profitable. Majority of SMEs in countries in transition are microenterprises employing family members or close relatives (**World Business Council for Sustainable Development, July 2007**). Following diagram-1 shows the massive contribution of MSMEs to employment in developed as well developing countries. Noteworthy is the increased percentage through employment and GDP in high – income countries. It is a pointer for the development plans and thrust areas for the low income ones. Information about emerging economies give no different picture about the role of SMEs. While In China SMEs account for 99% of all enterprises in Ghana they contribute to 70% of GDP, 92% of Businesses and 85% of mfg. employment. While In Indonesia 90% of workforce, especially women and youth – are in MSMEs, in Malaysia they contribute 32% to GDP, 56.4% to Employment and 19% to exports. Taiwan and Japan are the countries having high economic growth guided by dynamic SMEs. Also the strongest growth of Columbia too coincides with fast SME growth. Role of SME become more crucial in developing nations as they have potential to improvement of income distribution, employment creation, poverty reduction and export growth. It also leads to the development of entrepreneurship, industry and the rural economy. Contribution of formal SMEs in high – income countries amount to almost 50 percent of GDP on an average. In US, SME enterprises are often called foundation enterprises, are the core of the country's industrial base. More than 99 percent of U.S. businesses are SMEs and they account for 99.9 percent of the 27 million employers and non-employer nonfarm businesses in US. Of these total SMEs, service firms contribute to 88 percent. SMEs in US are in businesses like real estate and rental & leasing service, whole sale trade. Japanese SMEs contribute to more than 99% of nation's total business. This has resulted in employment for majority of the population and accounted for a large proportion of economic output. They play significant role as the backbone of the service sector and support as an essential part of the manufacturing and especially as strong export supply chain. The sectors include retail business and service industry(**Viral M. Pandya)**. One of SMEs small but important characteristics is that they are in a leading position to improve industries and technologies. SMEs are densely existed within the enterprises implementing innovative studies. SMEs having gained importance in the developing economies, become advantageous being economic enterprises having the capability of quick adjudication, working with less capital but more intense labor and having low cost of management and thus having cheap production. In short, the concept of *small is beautiful* becomes important in the current economic conjuncture with SMEs, observing the market closely, understanding the requirements of customers better and having intimate relations with its employee, have more elasticity than the large ones in terms of manufacturing, marketing and service. As this elasticity enables harmony with the changes in outside in time and on-site, SMEs pass over many troubles lightly with less damage(Hidayat and Canan). Empirical results indicate that the size of the SME sector has a nonlinear relationship with economic growth. In countries in which SMEs employment accounts for less than 59.75% of total employment they have negative relation with a growth and in countries in which SMEs employment accounts for more than 59.75% of total employment they contribute positively(Farooq etal). "Mittelstand," by which name Germany's SME segment is known as, accounted for 52% of Germany's economic output in 2010. whereas large firms cut jobs between 2008 and 2011 (-2.4%), the Mittelstand increased employment by 1.6%.1 In the U.S., SMEs accounted for 65% of net new job creation between 1993 and 2009.The impact on the overall economy is even greater because new jobs created by SMEs further create more jobs, referred to as the employment multiplier, which for some industries like manufacturing could be close to three. SMEs, with their local focus on employment and spending, are better at boosting overall domestic consumption **(Jain and Chen**). This is known as the local multiplier effect. One strength of SMEs not widely understood is that they are also one of the most important drivers of innovation in most countries. In the U.S., among high-patenting technology firms, SMEs produce 16 times more patents per employee than large enterprises. The German Mittelstand companies are some of the most innovative in Europe, with 54% of them launching an innovation into the market between 2008 and 2010.1 In China, SMEs accounted for 66% of patents and more than 80% of research and development in 2011. MSMEs world wide become crucial for a nation's growth owing to its advantages of employing low skilled Labor, women and youth, being bridge for transforming agro-dependent economies to transform into industrial and service-oriented economies, by becoming the link in the supply chain for large multinationals, their role in poverty reduction, geographic spread, export potential, potential link to local customer base and cumulating these effects make them the engines for social stability which in turn makes a nation attractive to investments (**Rhama Parthasarathy**).

MSME sector in India

Following tables give a bird's eye view of Indian MSME sector (Prime minister's Task force,2010). Following table and figures are extracted from annual report of Ministry of MSMEs for 2011-12.

Table-2 : MSME broad details

S.No	Parameter	MSME details 2011
1	GDP	8%
2.	Export	40%
3.	Manufactured output	45%
4.	No. of products	6000
5	No. of Units	31.1 million
6	Employment	73.2 million
7	Employment growth	5.29%
8	Production(Million Rs.)	10957580
9	Prod. Growth rate	11.5%
10	% of Manufacturing Units	67%
11.	% of Service sector units	33%
12	Avg.Employed(un Regd.)	2.05
13	Rural Enterprises	45%
	Important Ratios of Registerd Units	
14	Avg.Employed	5.93 nos.
15	Per unit Fixed Invstment(Regd)	32.26 lacs
16	Per unit Gross output	45.69 lacs
17	Gross output/lac investment	1.37
18	Employment/lac investment	0.185

A report of national Knowledge commission indicates that 'Innovation Intensity' (i.e. the percentage of revenue derived from products/services which are less than 3 years old) has increased for large firms and SMEs, with SMEs registering a greater increase in Innovation Intensity than large firms**.** More than half of the increase in market share, competitiveness, profitability and reduction in costs due to Innovation has occurred in SMEs due to three types of Innovation – new products, new processes and new services. Innovation Intensity is higher for manufacturing but Innovation Intensity has grown faster from 2001-02 to 2005-06 for services than manufacturing **(National Knowledge Commission).**

Discussion

The main factors that contribute positively to a nation's growth are poverty reduction, education, access to health care, social infrastructure, increased quality standards of life and all these accomplished in a sustainable manner. This growth translates into development. So far not a single country succeeded in moving from slow human development and rapid growth, to a path in which human development and growth can become mutually reinforcing. Sustainable development has been defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. This implies that sustainable growth or development is a triad consisting economic, social and environmental sustenance. By linking economic development, protection of the environment and social justice, it aims at the continuous improvement of the quality of life and well-being for present and future generations. The components of sustainable development include socioeconomic development, sustainable consumption and production, social inclusion, demographic changes, public health, climate change and energy, sustainable transport, natural resources, global partnership and good governance. Sustainable development, meaning long term inclusive and balanced growth, requires widened markets making it inevitable to consider global markets as components for a nation's growth. The pillars of sustainable growth/development are accessing and availing quality education, healthcare, creation of ample economic activities, trade, commerce thereby increasing employment and reduction in poverty with improvement of a nation's per capita income. Equitable distribution of wealth may not be practicable but the people at the bottom of the social structure must have a decent life. Sustainability implies long term and in order for development to continue indefinitely balancing the interests of different groups of people, within the same generation and among generations is essential in three major interrelated areas– economic, social, and environmental. Necessary conditions that should be created for sustainable development include eradicating extreme poverty, establishing and preserving peace in all regions and all countries, healthy and productive life in harmony with nature. Human development, such as higher qualified workers capable of technological and managerial innovations along with opportunities for their efficient use: more and better jobs, better conditions for new businesses to grow, and greater democracy nourish economic sustenance of a

nation. Sustainable growth/development is realized through pattern of economic growth. The literature study indicates that as poverty in many developing countries is a predominantly rural problem increased agricultural productivity is the key to poverty reduction initially, followed by industrialization. Growth through industrialization helps long-run poverty reduction. Policies focusing on productive factors that the poor possess viz. raising returns to unskilled labor, use of labor intensive methods in place of capital intensive methods, promoting development of rural non-agricultural activities like production in MSMEs may decrease this disparity. Industries which employ a high proportion of unskilled workers and/or use domestic inputs and raw materials produced with labor-intensive technologies can have positive effects on incomes of the poor. No country can grow in isolation and it has been shown clearly that higher the global integration index more the sustainable development. Global Integration index of nations classified as developed ones is far higher than those classified as developing. India can be no exception. However global integration along with its fruits also throws challenges. It is inevitable for a firm or a nation to be globally competitive for reaping the globalization benefits or overcoming the globalization challenges and survive. In this context Global Competitive Index Report of World Economic Forum released year after year, becomes the reference for a nation's ranking in global competitiveness. Literature review above indicates the seriousness of lower ranking of India in global competitiveness. India is the worst performer among the BRICs, with concerns in both areas of sustainability viz. social as well environmental. On the social sustainability adjusted GCI, India's performance is very bad in many components: like poor access to some basic services like sanitation to many of its citizens, high youth unemployment percentage, is very high vulnerability of even for those employed in absence of adequate official social safety nets. This makes the country vulnerable to economic shocks. In terms of its environmentally sustainable competitiveness, India also has some areas of concern such as its high agricultural water intensity and significant air pollution. The most revealing point is the performance of India being the worst in all aspects. It is the only nation that is having negative changes ranging from –5% to –15% in GCI and even adjusted GCIs. In adjusted GCI scores it has the least scores among the BRIC countries.

Conclusion

It can be concluded that whether the country is developing or developed in nature, role of MSME For India it is no different. Having understood the positive contribution of Indian MSMEs to GDP and GNP in the times of economic crests and also economic troughs and also to urban or rural economies India can safely rely on MSMEs to be the engine for sustained economic growth. The author has no doubt that MSMEs have a very significant and key role to play in India’s journey towards the goal of Sustainable Development through the intermediate goal of sustainable growth. Hence it becomes important for policy makers to analyze major factors contributing to the positive growth of the sector can safely rely on MSMEs to be the engine for sustained economic growth. The author has no doubt that MSMEs have a very significant and key role to play in India’s journey towards the goal of Sustainable Development through the intermediate goal of sustainable growth. Hence it becomes important for policy makers to analyze major factors contributing to the positive growth of the sector.

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