

## **MSME'S AND THEIR ROLE IN ENSURING SUSTAINABLE ECONOMIC DEVELOPMENT IN INDIA CHARACTERIZED BY LPG**

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### **ABSTRACT**

Micro, small and medium enterprises are very important for the economy of any country and it is more so in a developing country like India. Economies of the nations are boosted up by these MSMEs. These Enterprises emerge as leaders specially during the recession period restoring the lost jobs and business activity despite slow and fragile economic conditions. Such enterprises contribute almost 40% of the gross industrial value added in the present days' Indian economy.

Micro, Small and Medium Enterprises (MSMEs) have been playing a vital role in assuring growth and development in the Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people, creating 1.3 million jobs every year and producing more than 8000 quality products for the domestic as well as international markets.

MSMEs have also been proving significant contributors in the promotion of sustainable economic development by accelerating entrepreneurial activities, create employment opportunities and function in backward areas thereby creating sustainability. MSMEs have capability to create a large number of earning opportunities (though smaller) catering to a big segment of Indian and world population.

This paper studies the role of MSMEs in Indian Economy and their contribution to the sustainable economic development of the country as a whole in general and from the time of their creation in particular as this concept of putting together all the these micro, small and medium enterprises is not an old one. There is a very popular ministry also at the national level to look after all these enterprises individually as well as collectively.

**Keywords-** MSME, Indian economy, sustainable development

### **INTRODUCTION**

The Small Scale Industries (SSIs) have been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSMED Act, 2006. Micro, small and medium enterprise or micro, small and medium-sized enterprises are the companies whose personnel numbers fall below certain limits. These Enterprises (MSMEs) are an integral part of the Indian industrial sector. The very distinctive feature of MSMEs is lesser capital investment and high number of labour absorption which has created unprecedented importance to this sector. As per the reports from Development Commission of Micro, Small and Medium Enterprises (2001),

the sector has the credit of being the highest in employment generation in the industrial sector and stands just next to agricultural sector of the Indian nation.

The micro, small and medium enterprises today make up a very important division of the Indian economy. This sector got developed and promoted by the vision of our late, great and visionary Prime Minister Jawaharlal Nehru who wanted to develop core industries and have a supporting sector in the form of small scale enterprises. The MSME sector has been fast emerging as a dynamic and pulsating sector of the country. The Indian economy is expected to grow by over 8 per cent per annum up to 2020 and can become the second largest in the world and third largest after China and the United States by 2032. The turnaround in manufacturing and other allied sectors, which has occurred in the face of increased global competition, is due to improved efficiency following the various policy reforms in the recent decades. Micro Small and medium enterprises (MSMEs) contribute 6 per cent of the total GDP, 34 per cent of national exports and account for the employment of more than 30 million people of the country

**Description of MSMEs in India**

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 major and main categories namely:

**1. Manufacturing Enterprises:** The manufacturing enterprises are engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

**2. Service Enterprises:** The service enterprises are engaged in providing or rendering of services and are defined in terms of investment in equipment. The limit for investment in plant and machinery or equipment for manufacturing and service enterprises respectively will be as follows as per notification S.O. 1642(E) dtd.29-09-2006:

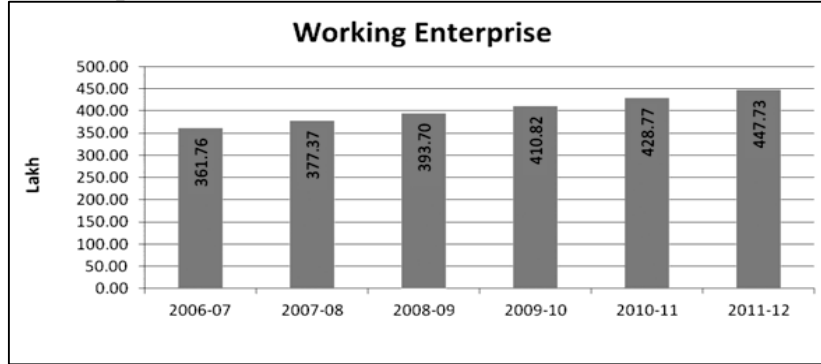
**Table 1:** Manufacturing Enterprises and Service Enterprises

<b>Manufacturing Enterprises – Investment in Plant &amp; Machinery</b>		
<b>Description</b>	<b>INR</b>	<b>USD(\$)</b>
Micro Enterprises	upto Rs. 25Lakhs	upto \$ 62,500
Small Enterprises	above Rs. 25 Lakhs & upto Rs. 5 Crores	above \$ 62,500 & upto \$ 1.25 million
Medium Enterprises	above Rs. 5 Crores & upto Rs. 10 Crores	above \$ 1.25 million & upto \$ 2.5 million
<b>Service Enterprises – Investment in Equipments</b>		
<b>Description</b>	<b>INR</b>	<b>USD(\$)</b>
Micro Enterprises	upto Rs. 10Lakhs	upto \$ 25,000
Small Enterprises	above Rs. 10 Lakhs & upto Rs. 2 Crores	above \$ 25,000 & upto \$ 0.5 million
Medium Enterprises	above Rs. 2 Crores & upto Rs. 5 Crores	above \$ 0.5 million & upto \$ 1.5 million

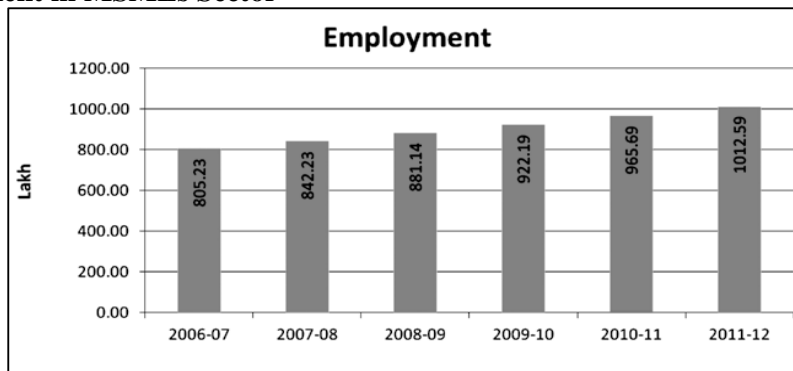
**Source:** MSMEs Development Act 2006, District Industries Centers (DICs) MSMEs, Government of India

Charts showing statistics of the MSMEs sector

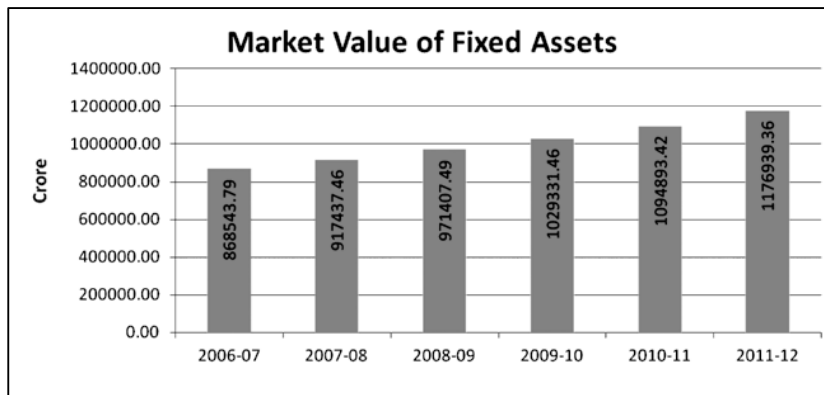
A) Number of Enterprises in MSMEs Sector



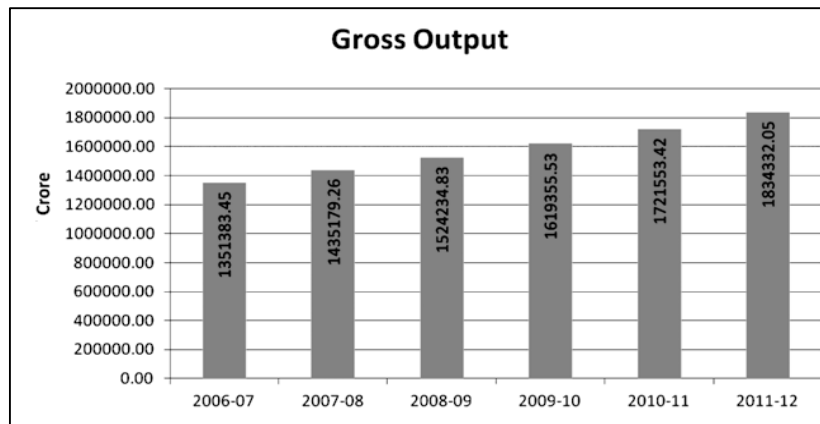
B) Employment in MSMEs Sector



C) Fixed Investment in MSMEs Sector



#### D) Gross Output in MSMEs Sector



Source: Annual Report, 2011-12, MSME

#### Sustainable development

Present-day growth theories make it visible that environmental sustainability is potentially incompatible with uninterrupted economic growth due to the limited or scarce resources. Inability to achieve environmental sustainability can even hinder achievement of long-term economic growth. Achieving maximum economic growth or total maintenance of environment is not the issue, but the issue is arriving at balance both in economic progress and environmental protection, and the concept of sustainable development may be the guiding force.

Sustainable development is defined by the Brundtland Report as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs.”

According to Hasna Vancock, sustainability is a process which tells of a development of all aspects of human life affecting sustenance. It means resolving the conflict between the various competing goals, and involves the simultaneous pursuit of economic prosperity, environmental quality and social equity famously known as three dimensions (triple bottom line) with the resultant vector being technology. Hence, it is a continually evolving process; the 'journey' (the process of achieving sustainability) is of course vitally important, but only as a means of getting to the destination (the desired future state). However, the 'destination' of sustainability is not a fixed place in the normal sense that we understand destination. Instead, it is a set of wishful characteristics of a future system.

All the major world conferences and initiatives taken so far on environment and development have stressed on economically viable, socially equitable and protection of the environment for attaining sustainable development.

Sustainable development specifically means achieving a balance between the development and protection of the environment with an eye to equity in employment, shelter, basic services, social infrastructure and transportation etc. With the rapid expansion of urban population in the world there has arisen a wide awareness about minimizing the environmental costs of urbanization. Concerns are raised at environmental damages and depletion of non-renewable resources and rising levels of pollution at a great speed. In recent

times, cities have become places of urban environmental degradation and wasteful use of resources, which is proving to be costly to the generations of present and also of future. In order to mitigate the problem, we are required to minimize the depletion of non-renewable resources and resort to environmentally sustainable economic development.

Since the Brundtland report (World Commission on Environment and Development, 1987) first defined ‘sustainable development’, many other definitions have been formulated by various supporters taking advantage of the ‘creative vagueness’ of the original formulation.

Parris and Kates (2003) have used the following classification to describe the goals in these formulations:

**Table 2:** Classification of the goals

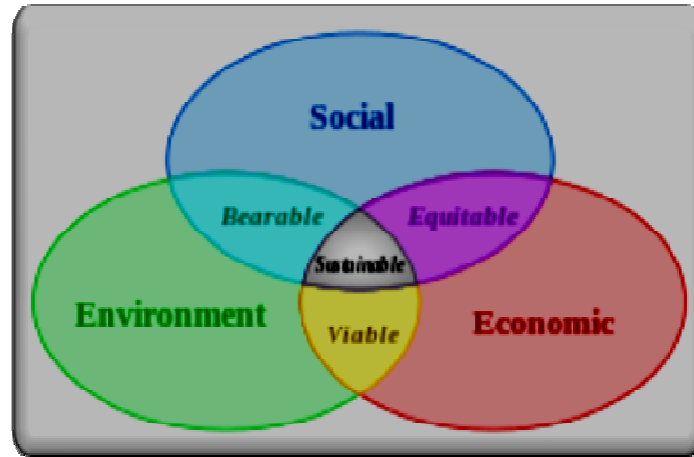
<b>What is to be sustained?</b>	<b>What is to be developed?</b>
Nature Earth Biodiversity Ecosystems	People Child survival Life Expectancy Education Equity ( Equality) Equal opportunity
Life Support Ecosystem services Resources Environment	Economy Wealth Productive sectors Consumption
Community Culture Groups Places	Society Institutions Social capital States Regions

**Source:** T.M. Parris and R.W. Kates, (2003) “Characterizing and Measuring Sustainable Development”, Annual Review of Environment and Resources vol. 28

The concept of sustainable development has in the past most often been broken out into three constituent parts: (1.) environmental sustainability, (2.) economic sustainability and (3.) sociopolitical sustainability. The relationship among all these 3 aspects is clearly defined as the Venn diagram.

It shows the mutual inter linkage of the human aspects. The mutual development between social and ecological aspects, social and economical and economical and ecological referred as bearable, equitable and viable respectively; whereas the mutual development among all the three i.e. social, ecological and economical is called sustainable development.

The Venn Diagram shows the relationship among different aspects of human activities –



**Fig. 1:** Venn diagram showing relationship among different aspects of human activities  
In the recent past, it has been suggested that a more consistent analytical breakdown is to distinguish four domains of economic, ecological, political and cultural sustainability.

**The Melbourne Assessment 2011** describes the components of the various aspects of the development in the Circles of Sustainability. These components are determined to calculate the sustainable development of any country. In the given table, the major aspects of sustainability along with their components are given below and a look at them may clear the picture further:

**Table 3:** Major aspects of sustainability

<p><b>ECONOMICS</b> Production and Resourcing Exchange and Transfer Accounting and Regulation Consumption and use Labour and Welfare Technology and Infrastructure Wealth and Distribution</p>	<p><b>ECOLOGY</b> Materials and Energy Water and Air Flora and Fauna Habitat and Food Place and Space Constructions and Settlements Emission and Waste</p>
<p><b>POLITICS</b> Organisation and Governance Law and Justice Communication and Movement Representation and Negotiation Security and Accord Dialogue and Reconciliation Ethics and Accountability</p>	<p><b>CULTURE</b> Engagement and Identity Recreation and Creativity Memory and Projection Belief and Meaning Gender and Generations Enquiry and Learning Health and Wellbeing</p>
<p><b>Source: The Melbourne Assessment 2010-11</b></p>	

### **Problems in the Developing Nations**

Problems of sustainable development are rooted in issues of resources' use and their pattern of distribution and ownership. The problem today is not primarily one of absolute physical shortage but of economic and social mal-distribution and misuse.' Thus United Nations Environment Programme (UNEP) 1975 explains 'environmental management implies sustainable development'.

Issues of sustainable development have become centre stage to economic debates and are now setting the pattern of economic growth and international trade through multi and transnational corporations. The challenge of changing lifestyles and mode of production would require a technological change towards a just order. Economic growth cannot be translated into economic well being till distribution of costs and benefits of both financial and natural resources in economic policies is accounted for. It has been found that the costs of development are generally borne by the poor and subsistence community but the benefits are always falling into the pockets of the rich which results into further widening of gulf between have's and have's not.

Another problem at international level is the over extraction of resources by the developing nations to meet the requirements of the international market under the pressure of debt and amortization payments resulting in abuse of environmental resources in an unsustainable manner.

### **Contribution of MSMEs**

MSMEs are contributing quite a significant share to the GDP and export of the country. The matter of fact is that to determine the contribution of the MSMEs in the sustainable economic development in the changed scenario of Indian economy i.e. globalised, liberalised and privatized the performance of the MSMEs in terms of economic sustainability and globalization is compared on the basis of the secondary data (annual reports from Ministry of MSMEs, Government of India). The analysis of the data reveals whether MSMEs are contributing in the sustainable economic development in India or it resists the sustainability. The analysis also helps in determining the favourable or adverse effects of globalization on the MSMEs performance towards economic sustainability.

The key indicators used to determine the contribution of MSMEs in the economic sustainable economic growth of the Indian economy are the effective and efficient production, output, human resource development, the standard of living on the basis of the consumption patterns, the contribution in the International trade especially export, meeting of social responsibility and ethical accountability and regulations, technological advancement with state of the art infrastructure and the distribution of wealth among all individuals and also all sections of the society of the country in an equitable and just way.

Currently, there are more than 6000 products produced by MSMEs in India and these products are widely diversified in nature ranging from traditional ones to high-tech products. Out of these products, food products and beverages hold the maximum share of 14.26% and wearing apparel holds 13.67 %.( 4th All India Census Report)

**Table 4: Major industry-wise distribution of working MSMEs**

NIC 2004	Description of Activity	No. of Working Enterprises (lakh)	% Share
15	Food Products & Beverages	2.23	14.26
18	Wearing Apparel	2.14	13.67
28	Fabricated Metal Products	1.40	8.96
52	Repair & Maintenance of Personal & Household Goods; Retail Trade	1.32	8.46
17	Textiles	1.06	6.78
36	Furniture	1.00	6.36
29	Machinery & Equipment n.e.c.	0.73	4.66
26	Other Non-Metallic Mineral Products	0.59	3.77
50	Repair & Maintenance of Motor Vehicles; Retail Sale of Automotive Fuel	0.58	3.72
20	Wood & Wood Products	0.55	3.53
	Total of above 10 industry types	11.60	74.18
	Others	4.04	25.82
	All	15.64	100

**Source: 4th All India Census report**

The total employment in the MSME in the country was 93.09 lakh (registered sector) as per the all India report of the 4th census. It was estimated that the sector would employ 1012.59 lakh persons in the year 2011-12.

**Table 5: Showing total no. of MSMEs, Employment therein, Fixed Investment and Production in Rs. (crores)**

Year	No. of MSME (in lakh)	Employment (Person in lakh)	Fixed Investment (Rs. in Crore)	Production Gross output (Rs. in Crore)
2001-02	105.21	249.33	154349.00	282270.00
2002-03	109.49	260.21	162317.00	314850.00
2003-04	113.95	271.42	170219.00	364547.00
2004-05	118.59	282.57	178699.00	429796.00
2005-06	123.42	294.91	188113.00	497842.00
2006-07	361.76+	805.23+	868543.79*	1351383.45*
2007-08#	377.37	842.23	917437.46	1435179.26
2008-09#	393.70	881.14	971407.49	1524234.83
2009-10#	410.82	922.19	1029331.46	1619355.53
2010-11#	428.77	965.69	1094893.42	1721553.42
2011-12#	447.73	1012.59	1176939.36	1834332.05



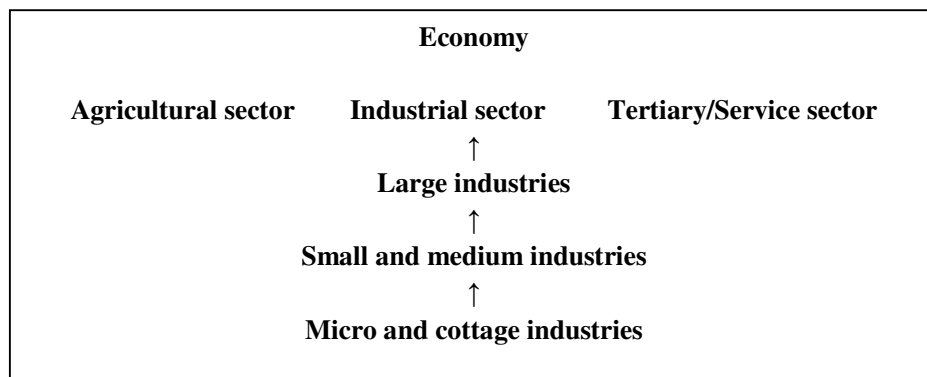
+Including activities of wholesale/retail trade, legal, education & social services, hotels, motels & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted from Economic Census 2005, Central Statistics Office, M/o SPI.

\*Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities wholesale/retail trade, legal, education & social services, hotels, motels & restaurants, transports and storage & warehousing(except cold storage) which were excluded from Fourth All India Census of MSME, unregistered sector

# Projected

**Source: Annual Report, 2011-12, MSMEs**

MSMEs can help in increasing entrepreneurial activities, create employment opportunities and function in backward areas thereby creating sustainability. MSMEs have capability to create a large number of earning opportunities (though smaller) catering to a big segment of population ecosystem. The following diagram depicts how MSMEs are the backbone of an economy in a developing world.



If we spare time to actively and sincerely listen and understand what MSMEs do, we will reach at the conclusion that they are making a small, but positive contribution towards overall economic sustainability. MSMEs are going a long way in resource efficiency assurance, reducing a handsome amount of waste and ensuring employee welfare besides promoting employment and social equity, although they don't necessarily label their efforts as sustainability. In fact, there are other areas of ensuring and promoting sustainability that they need to tackle, but first steps first or step by step in a gradual way.

MSMEs contribute to economic development in various ways such as creating employment opportunities for rural as well as urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole at micro and macro level both and that too in short as well as long run.

These enterprises (MSMEs) play a very vital and important role in the development of a fast developing country like ours one. There are more than 26 million MSMEs units (registered and non-registered) in India. MSMEs contribute nearly 45% share of manufactured output, accounting for 40% in overall exports of the country and providing employment to more than 32 million people and many of them are not professionally/technically educated due to non availability of affordable education for them.

### **Promotional policies for MSMEs by Indian Government**

Indian Government is continuously monitoring the MSMEs and trying hard to push up the sector at a great speed. India has registered a high economic growth (6-9%) consistently over the last one decade and for the sustainability of this kind of growth, proper nurturing of MSMEs sector is imperative. The need of the hour is to empower the MSMEs so that it is able to take its rightful place as the growth engine of the economy for sustainability and overall prosperity of the nation and its nationals.

Fortunately, India has evolved a broad institutional network over time for the promotion of small scale industries (SSI). This network extends from the national to state and subsequently to district levels. There are diversified and different institutions like Small Industries Development Organization, Small Industries Service Institutes (SISIs), National Small Industries Corporation, National Institute of Small Industries Extension Training, Small Industries Development Corporation and State Financial Corporation, District Industries Centers etc. from national level to province and the district. Small firms are helped by these institutions in a number of ways and several areas including marketing, exporting, importing, adopting present day and new technology so as to boost production, marketing, export etc. which necessarily goes a long way either in helping or ensuring directly the sustainable and overall economic development of the country and the countrymen both. To cope with and meet the challenges of international competition arising out of Liberalisation, Privatisation and Globalisation of Indian economy and to promote exports of SSI products, the following promotional schemes are being implemented:

- Small Industries Development Bank of India implements schemes for technology development and modernization of SSI units spread all over the country's villages/towns in special and small/big cities in general.
- SISIs organize workshops on ISO-9000 certification and awareness about quality.
- Establishment of tool rooms help in providing tooling, dies, moulds and fixtures to small-scale units at a very low price so as to enable SMEs to produce quality goods at comparatively low cost so as to meet the requirements of the domestic as well as global/international markets.
- Process-cum-Product Development Centers take up jobs from SSIs for specific products' development as well process development to improve the quality of products, reduce cost of production and enhance marketability of goods particularly in long run.
- The government helps MSMEs in marketing their products by organizing domestic as well as international exhibitions, sponsoring delegations from different SSI sectors to various countries and providing pertinent information and input with regard to sales opportunities available in international and inter-continental markets specially in developed world like Europe, US, Canada, Australia, Japan, CIS etc.
- Export promotion from small-scale sector has received utmost priority of the government and thus export oriented and export processing zones, concept is in place and every policy formulated for achieving growth in exports have a number of incentives like tax holidays, subsidized power for maximum number of hours etc. available to small-scale exporters of the country.
- With a view to encouraging the small-scale units to produce "Quality Goods", at economical prices National Awards for Quality Products are given to outstanding entrepreneurs running small-scale units so as to encourage them further to work more effectively and efficiently.

- A new scheme for technology upgradation for industrial clusters has recently been commenced by the government exclusively for motivating the entrepreneurs in question. The scheme includes a diagnostic study of the clusters, the identification of technological needs, types of technological interventions and the wider dissemination of information and technology within the clusters.
- Indian Government raised recently the capital subsidy given to SMEs by 15 percent for technological upgradation. All such encouragements and motivational interventions by government of India and different states are aimed at ensuring sustainable economic development of the country to enable countrymen enjoy maximum possible fruits of the industrial and technological advancement world over.

## **CONCLUSION**

In terms of employment generation, exports and economic empowerment, MSME is an important sector and plays highly critical and diversified roles and has an important place in the Indian economy. As per 4th Census of MSME sector, this sector is spread over 26.1 million enterprises giving employment to an estimated 59.7 million persons and according to the annual reports of 2011-12 and projects of 2012-13, this sector is projected to employ 1012.59 lakh persons by the end of 2012. In terms of manufacturing output and total exports, this sector is just behind the agriculture sector accounting for about 45% and 40% in both the sectors respectively. Therefore, governments of India and of states have given a very high priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country to ensure overall prosperity among all the countrymen.

The Economic Development and Growth of MSMEs have a cyclic relationship. One is fuelling the other. The aim is towards Inclusive Growth and Sustainable Development as well as Poverty Alleviation specially in sub-urban and rural India as this particular segment of the Indian society is most vulnerable with regard to economic means.

Infrastructure development is pushed up by economic policies and plans which results in growth of business and indirectly MSMEs are benefitted to a substantial extent. Business growth increases investment, employment, business in remote areas and inclusive growth. With this growth, an income increases which has been giving rise to personal investment and spending. Revenue is increased through investment and spending in the form of taxes as it is said that taxes are paid and nations are made / built. Revenues and growing economy give a large number of opportunities to the government to function better and come out with more growth so as to ensure an un ending cycle of growth and development of the economy as a whole.

Cooperation among MSMEs and formation of clusters can help in overcoming various challenges for survival and help in creating greater unified competency. When people of all walks of lives are brought together and their strength and capacity is utilized fully and in combined way, India will be then able to achieve the level of sustainable economic development projected and planned for it by its founding fathers and world renowned economists, thinkers, philosophers, politicians, leaders etc.

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