

COMPARATIVE ANALYSIS OF MSMEs IN THE ERA OF PRE & POST LIBERALISATION

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Abstract :

The paper seeks to analyze the performance of MSMEs in the era of pre & post liberalisation in India & searching for, is liberalisation beneficial to MSMEs? Have it meet with the question of unemployment of country like India which is a labour intensive. Here is not insistence of, MSMEs fully meet with the question of unemployment but maximum possibilities expect & also seek to know impact of liberalisation on contribution of MSMEs in economic development & the most important observation will be, are only liberalisation cause of growing MSME sector.

Keywords: MSME, liberalisation, Trade, Employment, Growth

Introduction:

MSME is labour intensive model & also consider as complementary to heavy industries. It provides enormous socio-economic development to nation. By MSMEs regional balance may be achieved cause generally these firms established in rural, economically backward regions & semi-urban areas.

Achievement of MSMEs.

- The number of MSMEs in india increase by a CAGR of 18.5% from 2019-2020.¹
- In FY21 the loan distribution to MSMEs stood at RS 6.8 trillion in FY20.¹
- MSME related products export share of all india export stood at 49.4% & 49.8% for FY21 & FY22 respectively.¹
- Budget allocation for MSMEs in FY22 more than doubled to ₹ 15,700 crore (US dollar 2.14 billions) vis-à-vis ₹ 7,572 crore (US dollar 1.03 billion) in FY21. Major contributor to the socio-economic development of the country.¹
- MSME contributes about 29% towards the GDP through it's national & international trade.¹
- 43,37,444 people were employed in MSMEs during FY20. This increased by 106 per cent to 89,53,149 in FY21 and by 4.9 per cent to 93,94,957 in the current financial year.²

DEFINITION

According to the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSMEs) are classified in two classes i.e., Manufacturing Enterprises and Service Enterprises.

¹<https://www.ibef.org/industry/msme>

² Budget session in parliament

The enterprises are further categorized based on investment in equipment and annual turnover.

(TABLE 1) CRITERIA OF MSMEs

Criteria	Manufacturing		Service	
	Turnover	Investment	Turnover	Investment
MICRO	RS. 5 crore (US\$ 0.6 million)	Less than RS. 25 lakh (US\$ 0.03 million)	RS. 5 crore (US\$ 0.6 million)	Less than RS.10 lakh (US\$0.01 million)
SMALL	RS. 50 crore (US\$ 46.8 million)	More than RS. 25 lakh (US\$ 0.03 million) but less than RS.5 crore (US\$ 0.6 million)	RS. 50 crore (US\$ 6.8 million)	More than RS.10 lakh (US\$ 0.01 million) but less than RS. 2 crore (US\$ 0.3 million)
MEDIUM	RS.250 crore (US\$ 34 million)	More than RS.5 crore (US\$ 0.6 million) but less than RS.10 crore (US\$ 1.4 million)	RS. 250 crore (US\$ 34 million)	More than RS.2 crore (US\$ 0.3 million) but does not exceed RS.5 crore (US\$ 0.6 million)

OBJECTIVES

- To study Performance of MSMEs in the era of pre & post liberalisation (1991).
- To analyze Impact of liberation on contribution of MSMEs in economic development.
- Impact of trade liberalisation on performance of MSMEs.
- Employment generation in MSME sector.
- Instead of liberation another factors which contributing in a growth of MSMEs.

LITRATURE RREVIEW

S.L. GUPTA & R. RAJAN (AUG 2014): Gupta & Rajan highlighted that the policy of liberalisation which was aimed to deregulate the market & keep investment flowing did manage to increase the number of units, but their overall productivity leaves a lot to be desired. Increase in number of units & employment have shown proportionate growth over the period, whereas export & production has be fluctuating significantly. Per unit increase in rate of production has no been able to match with overall increase in production rate which indicates that new units added during the year supposedly ought to be incorporated with new

innovative & better technology are actually taking time to match overall production rate of older units. Similar is in the case of exports from MSMEs. It seems that investment coming from outside is meant to tap local market rather than to export. There is need to learn from Chinese experience that subsidies should be given only to those investment proposals which are intended towards export after value addition.

M.VENKATARAMANAI AH & B. SUNEETHA (DEC 2019): Authors examine that the trend the growth rate of the value of production hints that there is a gradual decrease in the value of production from MSMEs during the study period. In terms of employment generation the AAGR during the pre- liberalisation period is 7.20 %, and it declined to 4.24 % in the post – liberalisation period before the MSMEs ACT 2006. Interestingly, it is increased up to 4.86 % during the post – liberalisation period after the MSMEs ACT 2006. It shows a positive trend in the employment generation in recent years. There is a trend of sharp decline in the value of exports from MSMEs during the post – liberalisation period. In terms of CAGR, the same trend as seen in the case of AAGR can be observed in the units working, production, employment generation & exports.

DABASISH NASKAR (FEB 2019): Globalization has both positive as well as negative impact on performance of MSME sector. In terms growth of no. of units & employment generation capacity performance of MSMEs is better in the post liberalisation period compare to pre liberalisation period. Whereas in case of production pre liberalisation period growth is better. With the advent of globalization MSMEs gets the help of exposure to foreign markets flow of foreign investment & technology, employment generation & increase export contribution. Thus performance of MSMEs improved. But with the introduction of globalization MSMEs face extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure, anti- dumping policy, challenges on product standardization, total quality management etc. This competitiveness in domestic & global market may bring out superior performance.

ARIJIT DASH (JULY 2018): Undoubtedly, the MSME sector has the huge potential to contribute in the course of time to making india a 20 trillion-dollar economy. But in order to unleash the growth potential of this sector, there are some stark issues & challenges which need to be resolved Frist. Despite various incentives & facilities being provided to indian MSME, they are losing their efforts are needed for reviving & promoting the Indian MSME sector.

SUBHSDIP MUKHERJEE AND RUPA CHANDA: Miss rupa highlighted that the census analysis for the performance of MSME firms between 2001-02 & 2006-7 shows a variety effect of trade liberalisation on MSMEs firms depending on firm & industry – specific factors. While the impact on output growth & productivity for the overall MSMEs segment is mostly negative, we find that certain sub – groups of MSME firm, namely, those in less protected industries & those which use modern power techniques in their production process, which are technologically upgraded & which maintain their product quality standards, have performed better in both output & productivity terms. We also find that input channel effects resulting from liberalisation of input tariffs are consistently larger & more significant than competition effect resulting from the liberalisation of final goods tariffs.

SUDHARANI & JAYASHEELA (2020) Liberalisation policy was a major reform to bring about market changes & boost investments in india. The reform brought an increase in the number of small scale units but the reflection in terms of productivity was Missing.

METHODOLOGY

The paper is comparatively analyzed & explanatory in nature. The performance of MSMES analyzed on the basis of its contribution to economic development, impact of trade liberalisation, employment generation, no. Of units.

The data collected since 1973 - 74 to till 2017 - 2018. Period of study divided into two phases. 1973-74 to 1989-1990 & 1991 to 2018.

DATA SOURCE

Research is based on secondary data. As follows:

- Data from ministry of MSMEs.
- www.ibef.org/industry/msme
- Various research papers & online websites.

LIMITATIONS OF RESEARCH

Cause of unavailability of data research limits at the year of 2017 – 18. Present study is purely on secondary data.

DATA BASE & ANALYSIS

TABLE 2: Working units, production, employment & exports of MSMEs during the pre – liberalization period

Year	No. of units (million)	% Increase to previous year	Production (current prices)	% Increase to previous year	Employment (lakh)	% Increase to previous year	Export (RS. million)	% Increase to previous year
1973-74	0.42	NA	7,200	NA	3.97	NA	400	NA
1974-75	0.50	19.05	9,200	27.78	4.04	1.76	500	25.00
1975-76	0.55	10.00	11,000	19.57	4.59	13.61	500	NA
1976-77	0.59	7.27	12,400	12.73	4.98	8.50	800	60.00
1977-78	0.67	13.56	14,300	15.32	5.40	8.43	800	NA
1978-79	0.73	8.96	15,800	10.49	6.38	18.15	1,100	37.50
1979-80	0.81	10.96	21,600	36.71	6.70	5.02	1,200	9.09
1980-81	0.87	7.41	28,100	30.09	7.10	5.97	1,600	33.33
1981-82	0.96	10.34	32,600	16.01	7.50	5.63	2,100	31.25
1982-83	1.06	10.42	35,000	7.36	7.90	5.33	2,000	-4.76

1983-84	1.16	9.43	41,600	18.86	8.42	6.58	2,200	10.00
1984-85	1.24	6.90	50,500	21.39	9.00	6.89	2,500	13.64
1985-86	1.35	8.87	61,200	21.19	9.60	6.67	2,800	12.00
1986-87	1.46	8.15	72,300	18.14	10.14	5.63	3,600	28.57
1987-88	1.58	8.22	87,300	20.75	10.70	5.52	4,400	22.22
1988-89	1.71	8.23	106,400	21.88	11.30	5.61	5,500	25.00
1989-90	1.82	6.43	132,300	24.34	11.96	5.84	7,600	38.18
AAGR	NA	9.64	NA	20.16	NA	7.20	NA	21.31
CAGR	9.60	NA	19.95	NA	7.14	NA	20.20	NA

Source: Ministry of micro, small & medium Enterprises, GOI.

Notes: AAGR- average annual growth rate; CAGR- compound annual growth rate.

Impact of liberalisation on performance of MSMEs is positive & partially negative also. Cause after analyzing the data which mentioned in table 2, 3, 4 showing increase, decrease, fluctuation, least changes. As like in second table no of units is increasing but at least change rate but % increase to previous year is decreasing gradually. Production is increasing but % change to previous year is highly fluctuating, since 1974-75 to till 1982-83 & then rate is almost same except 1983-84, 1986-87 & 1989-90. As in the case of employment it is increasing but at the time of analyzing % increase to previous year is highly fluctuating since 1973-74 to till 1978-79 & then decreasing, increasing, decreasing by almost 1%. At the time of analyzing export it is increasing except year 1982-83 but % increase to year is some times 0, one time negative & fluctuating in other cases.

TABLE NO. 3 Working units, Employment and of MSMEs the since liberalization to MSMEs ACT 2006

Year	No. of units (million)	% Increase to previous year	Production (current prices)	% Increase to previous year	Employment (lakhs)	% Increase to previous year	Exports (RS. Millions)	% Increase to previous year
1990-91	6.79	NA	78,802	NA	15.83	NA	9,664	NA
1991-92	7.06	3.98	80,615	2.30	16.6	4.86	13,883	43.66
1992-93	7.35	4.11	84,413	4.71	17.48	5.30	17,784	28.10
1993-94	7.65	4.08	98,796	17.04	18.26	4.46	25,307	42.30
1994-95	7.96	4.05	122,154	23.64	19.14	4.82	29,068	14.86

1995-96	8.28	4.02	147,712	20.92	19.79	3.40	36,470	25.46
1996-97	8.62	4.11	167,805	13.60	20.59	4.04	39,248	7.62
1997-98	8.97	4.06	187,217	11.57	21.32	3.55	44,442	13.23
1998-99	9.34	4.12	210,454	12.41	22.06	3.47	48,979	10.21
1999-00	9.72	4.07	233,760	11.07	22.91	3.85	54,200	10.66
2000-01	10.11	4.01	268,197	14.73	24.09	5.15	69,797	28.78
2001-02	10.52	4.06	282,270	5.25	24.93	3.49	71,244	2.07
2002-03	10.95	4.09	314,850	11.54	26.02	4.37	86,013	20.73
2003-04	11.40	4.11	364,547	15.78	27.14	4.30	97,644	13.52
2004-05	11.86	4.04	429,796	17.90	28.26	4.13	124,417	27.42
2005-06	12.34	4.05	497,842	15.83	29.49	4.35	150,242	20.76
AAGR	NA	4.06	NA	13.22	NA	4.24	NA	20.63
CAGR	4.06	NA	13.08	NA	4.23	NA	20.07	NA

Source: Ministry of Micro, Small and Medium Enterprises, GOI & Research paper of M. Venkataramanaih, B. Suneetha

Notes: AAGR-average annual growth rate; CAGR- compound annual growth rate.

Number of units are increase and % increase to previous year is almost same. In the case of production and export both are increasing but % increase to previous year are fluctuating. Employment is increasing while % increase to previous year is almost same.

TABLE 3. Working units, production, employment and MSMEs the during post-liberalisation period before MSMEs act 2006.

Year	No. of units (million)	% Increase to previous year	Production (current prices)	% Increase to previous year	Employment	% Increase to previous year	Exports (RS. crores)	% Increase to previous year
2006-07 ^a	36.17	-	1,351,383	-	80.20	-	182,538	-
2007-08 ^b	37.74	4.34	1,435,179	6.20	84.2	4.57	202,017	10.67
2008-09 ^b	39.38	4.35	1,524,235	6.21	88.08	4.61	214,387	6.12
2009-10	41.05	4.24	1,619,35	6.24	92.18	4.65	238,75	11,36

^b			6				2	
2010-11 ^b	42.87	4.43	1,721,553	6.31	96.52	4.71	497,774	108.49
2011-12 ^b	44.77	4.43	1,788,584	3.89	101.17	4.82	670,707	34.74
2012-13 ^b	46.76	4.44	1,809,976	1.20	106.15	4.92	696,025	3.77
2013-14 ^b	48.85	4.47	1,831,624	1.20	111.43	4.97	798,946	14.79
2014-15 ^b	51.06	4.52	1,853,531	1.20	117.13	5.12	866,716	8.48
2015-16 ^b	53.37	4.52	1,875,699	1.20	123.12	5.11	866,912	0.02
2016-17 ^b	55.78	4.52	1,898,133	1.20	129.42	5.12	888,014	2.43
2017-18 ^b	63.39	13.64	NA	NA	NA	NA	959,215	8.02
AAGR	NA	11.52	NA	15.56	NA	10.97	NA	19.99
CAGR	8.63	NA	12.51	NA	8.09	NA	18.56	NA

Source: Ministry of Micro, Small and Medium Enterprises, GOI & Research paper of M. Venkataramanaih, B. Suneetha

Notes: AAGR-average annual growth rate; CAGR- compound annual growth rate.

^a 2006-07 onwards, figures include activities of wholesale/ retail trade, legal, education and social services, hotel and restaurants, transport and storage and warehousing for which data was extracted from economic census 2005, CSO. (Research paper of M. Venkataramanaih, B. Suneetha)

^b projected figures (Research paper of M. Venkataramanaih, B. Suneetha); NA- not available.

After MSME ACT 2006 there is increase in number of units, production, employment and export as well. But at the time of examine the % increase to previous year in all cases (no. of units, production and export) it is not satisfied. The way no. of units increases at % of previous year it is almost same except year 2017-18 (13.64). Surprisingly after 2010-11 there is high decrease in % increase to previous year of production and since 2012-13 till 2017-18 there is constant increase rate which is 1.20 and this is very least. At the time of examine the employment increasing rate there is a positive sign after the year of

2014-15 but it is a very negligible increase rate. No doubt export increased but the rate of % increase to previous year is highly fluctuating and that is not a good sign for an economy.

TABLE 5. Comparative analysis of MSMEs in the era of pre and post-liberalisation.

Growth rates	AAGR				CAGR			
	Period of study	No. of units (million)	Production (current prices)	employment	Export (RS. millions)	No. of units (million)	Production (current prices)	employment
Pre-liberalisation	9.64	20.16	7.20	21.31	9.60	19.95	7.14	20.20
Post-liberalisation before the MSMEs act 2006	4.06	13.22	4.24	20.63	4.06	13.08	4.23	20.07
Post-liberalisation after MSMEs act 2006	5.26	3.48	4.86	18.99	5.23	3.14	4.41	15.57

Source: Tables 1,2,3 and Research paper of M. Venkataramanaih, B. Suneetha

Notes: AAGR- average annual growth rate; CAGR- compound average growth rate.

After analyzing above data the results and findings are very clear cause it is showing that when India's economy was closed (pre-liberalisation era) that time MSME sector grew up at high rate in comparison to post-liberalisation. That time there were no external competitors (closed market) for MSMEs, no dumping market created as like China and also whole indian market was only for Indian MSMEs and lots of cause were in exist for the growth of MSMEs. So in the era of pre-liberalisation MSME sector grew at high rate this is not a big achievement.

In contrast at the time of post-liberalisation indian economy opened for world. So since liberalisation indian MSME sector competing with foreign MSME sector no doubt government taking initiatives to grow, to boost, to give priorities to indian MSME sector but indian government cannot help going beyond the rules and regulations of IMF. So still in the era of post-liberalisation Indian MSME sector facing with lots of problems like strong competition, lack of investment, marketing issues etc.

No doubt pre-liberalisation MSME sector grew on high rate in comparison with post-liberalisation. But there is need to analyze the economic environment at both times. The growth with problems facing by MSMEs (post-liberalisation) is not bad but that not mean that the growth rate which is in existent now a days of MSME is very good sign for indian economy but to grow it will take times and for the growth of MSME sector proper initiatives be must.

❖ Performance of MSMEs in the era of pre-liberalisation was at higher growth rate cause that time India's economy was closed and no external competitor was there to compete with indian MSMEs. As per the data shown in the whole research the performance of MSMEs of pre-liberalisation era is better than post-liberalisation MSMEs. But the situations was different at both times so post-liberalisation MSME sector just want proper environment and proper initiatives at the time of competing with open market economy.

❖ If in comparison to pre-liberalisation the rate of growing is less but post-liberalisation MSME sector no doubt increased well and also contribute in indian economy. The impact of liberalisation on contribution of MSMEs as follows:

- In FY21 the loan distribution to MSMEs stood at RS 6.8 trillion in FY20. MSME related products export share of all india export stood at 49.4% & 49.8% for FY21 & FY22 respectively.³
- Budget allocation for MSMEs in FY22 more than doubled to ₹ 15,700 crore (US dollar 2.14 billions) vis-à-vis ₹ 7,572 crore (US dollar 1.03 billion) in FY21. Major contributor to the socio-economic development of the country.³
- The number of MSMEs in india increase by a CAGR of 18.5% from 2019-2020.³
- MSME contributes about 29% (2019-20) and 31% (2020-21) towards the GDP through it's national & international trade.³
- 43,37,444 people were employed in MSMEs during FY20. This increased by 106 per cent to 89,53,149 in FY21 and by 4.9 per cent to 93,94,957 in the current financial year.⁴

❖ The impact of trade liberalisation on MSMEs is significant to indian economy. The share of MSME related to products in total export from india during 2018-19 is 48.10%⁵ and 45% export during 2020-21.⁵ So it is a good sign for indian economy.

❖ As like data given in whole research employment is increasing but not at the rate of pre-liberalisation.

❖ The overall growth of MSME sector in the era of post-liberalisation it is not only cause of liberalisation. It has also angles of government policies like Pradhan Mantri mudra yojana, emergency credit line guarantee scheme (union budget 2022-23), india export initiatives, FDI % in MSMEs is only 24% as like initiatives also contribute to the growth of MSMEs. (here is a one another limitation in the research is I noted down the only recent gov. policies and initiatives.)

³ <https://www.ibef.org/industry/msme>

⁴ Budget session in parliament

⁵ DGCIS (director general of commercial intelligence and statistics), <https://pib.gov.in> and the economic times

Conclusion

Liberalisation shows positive and negative impact also on MSMS sector. In the era of post liberalisation MSME sector growing at the slow and gradual rate but the performance of MSMEs in the era of post liberalisation is significant to indian economy a,nd here is need to labour intensive countries like indian to promote MSME sector cause MSME sector has potential to generate employments as

compare to other sectors like heavy industries and all.

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