



ISSN Print: 2394-7500  
ISSN Online: 2394-5869  
Impact Factor: 3.4  
IJAR 2014; 1(1): 20-24  
www.allresearchjournal.com  
Received: 17-08-2014  
Accepted: 17-10-2014

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## **India growth in economic performance, review of investment, infrastructure, job opportunity and consumerism**

**Rajesh Kumar Tiwari, Sharad Shukla**

### **Abstract**

India is the fourth largest economy in the world (in PPP terms) and the second largest in developing Asia. By 2012, it is expected to overtake Japan to become the third-largest economy. India accounts for 22 per cent of GDP, 33.8 per cent of the population and 32.5 per cent of potential workforce in developing Asia. In the next 10 years the country will add 120 million to the region's workforce, accounting for 53 per cent of the incremental addition. Its growth story is evident from the increased investment in infrastructure, abundant job opportunities in big and small cities, healthy balance sheets of companies and the heightened growth of consumerism. At present, Indian economy is on the fulcrum of an ever rising growth curve. With positive indicators such as a stable annual growth, rising foreign exchange reserves of close to US\$ 150 billion, a booming capital market with the popular Sensex (sensitive index of The Stock Exchange, Mumbai) topping the 11,000 point mark, increasing flow of foreign direct investment (FDI), and more than 20 per cent surge in exports are reinforcing India's growth story. India has grown in stature over the past ten years. Its GDP growth accelerated steadily after India liberalised its economy in 1991, taking a decisive step towards open policies and relinquishing inward looking policies. The average annual GDP growth went up to 7.3 per cent in the 2000s from 5.7 per cent in the 1990s. The near 9 per cent average annual growth over 2003-04 to 2007-08 was unprecedented. Growth-enhancing reforms, a structural upward shift in savings and investment rates, and increase in spending capacity have together powered India's growth. Although its GDP growth rate dropped due to the global financial crisis to 6.7 percent in 2008-09, India's economy emerged quite rapidly from the crisis. The economic recovery was aided by the inherent strength of India's domestic demand that was implemented by the Reserve Bank of India's monetary management and the central government's fiscal stimulus measures. With its GDP likely to grow at 8.6 per cent in 2010-11, India will be among the fastest growing economies. Globalization has completely altered the way in which the world turns.

**Keywords:** Economic Performance, Capital Market, Vision, Corporate strategy, GDP Growth Rate, Global financial crisis.

### **1. Introduction**

This impressive performance has been driven by strong growth in the services sector from the supply-side and household consumption from the demand-side. Services grew at an accelerated rate owing to increased government spending and the revival of trade, hotels, transport, communication and related sub-sectors. Industrial growth, as measured by change in index of industrial production, was driven by robust private consumption demand and the resurgence in investment demand. Industrial development, nevertheless, has now become volatile and is decelerating in recent months, from an average 16 per cent growth in 2009-10 to 9 per cent in 2010-11.

Good monsoons during the year have benefited the agriculture sector. With a backing from a low pedestal, this sector is likely to rise at around 5 percent, more outstanding than its long-term average growth of 2.8 per cent over the final two decades. Private use of goods and services continues to be the largest drivers of demand in the Indian economy. During 2005-06 to 2007-08, real private consumption growth stood at 9 per cent. During the worldwide fiscal crisis, when consumer confidence diminished and lenders became risk averse, private consumption growth fell to an average of 5.5 per cent in 2008-09 and 2009-10. By the second quarter of 2010-11, private consumption growth recovered to 9 per cent. At present, private consumption accounts for about 60 percent of overall demand in the economic system.

In increase, real government consumption also grew at an average of 13 per cent in 2008-09 and 2009-10, from a norm of 5.6 per cent over 2004-05 to 2007-08. India is the fourth biggest economy in the world (in PPP terms) and the second largest in developing Asia. By 2012, it is expected to overtake Japan to become the third-biggest economy. India accounts for 22 per cent of GDP, 33.8 per cent of the population and 32.5 per cent of potential manpower in developing Asia. In the following 10 years the nation will add 120 meg to the region's workforce, accounting for 53 per cent of the incremental addition. Its growth story is plain from the increased investment in infrastructure, abundant job opportunities in big and little cities, sound balance sheets of companies and the heightened development of consumerism. At present, Indian economy is on the fulcrum of an ever rising growth curve. With positive indicators such as a stable annual growth, rising foreign exchange reserves of close to US\$ 150 billion, a booming capital market with the popular Sensex (sensitive index of The Stock Exchange, Mumbai) topping the 11,000 degree mark, increasing flow of foreign direct investment (FDI), and more than 20 per cent upsurge in exports are reinforcing India's growth story. India has developed in stature over the past X years. Its GDP growth accelerated steadily after India liberalized its economy in 1991, taking a decisive step towards open policies and relinquishing inward looking policies. The average annual GDP growth went up to 7.3 per cent in the 2000s from 5.7 per cent in the 1990s. The near 9 per cent average annual growth over 2003-04 to 2007-08 was unprecedented. Growth-enhancing reforms, a structural upward shift in savings and investment rates, and increase in spending capacity have together powered India's growth. Although its GDP growth rate dropped due to the planetary financial crisis to 6.7 percent in 2008-09, India's economy emerged quite quickly from the crisis. The economic recovery was helped by the integral effectiveness of India's domestic demand that was complemented by the Reserve Bank of India's monetary management and the central government's financial stimulus bills. With its GDP likely to grow at 8.6 per cent in 2010-11, India will be among the fastest developing savings. This impressive performance has been driven by solid growth in the services sector from the supply-side and household consumption from the demand-side. Services grew at an accelerated rate owing to increased government spending and the revitalization of trade, hotels, shipping, communication and related sub-sectors. Industrial growth, as measured by change in index of industrial production, was driven by robust private consumption demand and the resurgence in investment demand. Industrial development, nevertheless, has now become volatile and is decelerating in recent months, from an average 16 per cent growth in 2009-10 to 9 per cent in 2010-11. Good monsoons during the year have benefited the agriculture sector. With a backing from a low pedestal, this sector is likely to rise at around 5 percent, more outstanding than its long-term average growth of 2.8 per cent over the final two decades. Private use of goods and services continues to be the largest drivers of demand in the Indian economy. During 2005-06 to 2007-08, real private consumption growth stood at 9 per cent.

During the worldwide fiscal crisis, when consumer confidence diminished and lenders became risk averse, private consumption growth fell to an average of 5.5 per cent in 2008-09 and 2009-10.

By the second quarter of 2010-11, private consumption growth recovered to 9 per cent. At present, private consumption accounts for about 60 percent of overall demand in the economic system. In increase, real government consumption also grew at an average of 13 per cent in 2008-09 and 2009-10, from a norm of 5.6 percent over 2004-05 to 2007-08. FDI inflows in India have risen quickly, doubling over three years. Between 2006 and 2008, FDI inflows in India doubled from US\$ 20 billion to US\$ 40 billion. Unlike foreign institutional investment (FII) inflows which have been volatile, climbing sharply from US\$ 24 billion in 2006 to nearly US\$ 51 billion in 2007 before falling to US\$ 18 billion in 2008 and again rising to nearly US\$ 48 billion in 2009, FDI inflows were fairly lively. For a growing state like India, FDI is considered as the most preferred route among the origins of foreign capital. FDI acts as a catalyst to Economic growth by increasing the investment rate, and also improves the total factor productivity by allowing technology transfer, enhancing efficiency of human capital, increasing competition and leading to export development. Granting to the United Nations Conference on Trade and Development (UNCTAD), India is among the five most favored investment destinations for FDI globally. This clearly highlights India's significant potential for attracting FDI and increasing India's external trade capabilities. Total exports of commodities and services rose from US\$ 60.9 billion in 2000-01 to US\$ 272.5 billion by 2009-10. India's part of global exports, therefore, increased from 0.8 per cent in 2003 to 1.2 per cent in 2009, as per World Trade Organization estimates. Rising at a compounded annual rate of 25.5 per cent, services exports crossed US\$ 100 billion in 2008-09, rising from a modest US\$ 16.3 billion in 2000-01. Exports of manufactured goods tripled to US\$ 115.3 billion in 2009-10 from US\$ 34.3 billion in 2000-01.

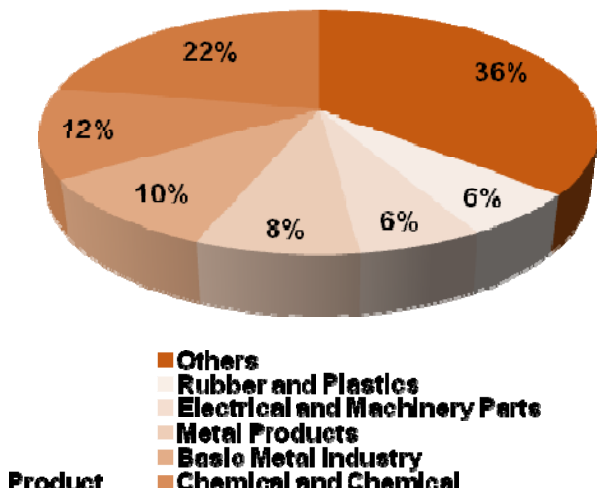
#### **MSME the real engine of growth**

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the economic growth of the country owing to their contribution to production, exports and employment. The sector on tributes 8 per cent to the country's GDP, 45 per cent of the manufactured output and 40 per cent of the country's exports. It offers employment to 60 million people through 28.5 million enterprises. Importantly, the MSME sector has sustained a higher growth rate is-à-is the overall industrial sector during the past ten. Agreeing to a survey, exports from these enterprises have been on the rise, despite the increased price of crude materials, sluggish global demand and tight international competition. Today, the sector makes a broad range of merchandise, from simple consumer goods to high-precision, sophisticated finished products. It has come forth as a major provider of mass consumption goods as well as a manufacturer of electronic and electrical equipment and drugs and pharmaceuticals. An impetus to the sector is likely to take in a multiplier impact on economic development. Agreeing to the MSMED Act, MSME's are defined on the footing of their investment in plant and machinery and equipment for enterprise rendering services.

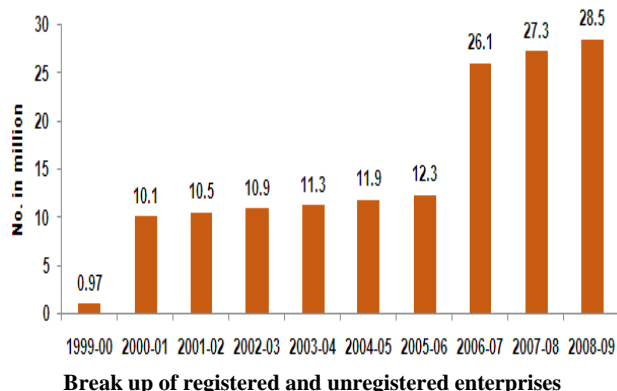
Classification	Manufacturing Enterprise	Service Enterprise
Micro	Rs 2.5 million/Rs 25 lakh (US\$ 50,000)	Rs 1 million / Rs 10 lakh (US\$ 20,000)
Small	Rs 50 million/Rs 5 crore (US\$ 1 million)	Rs 20 million/Rs 2 crore (US\$ 0.4)
Medium	Rs 100 million/Rs 10 crore (US\$ 2 million)	Rs 50 million/Rs 5 crore (US\$ 1)

Granting to the estimates of the 4th (All-India) Census of MSMEs, out of the entire number of MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94 per cent) are in the unregistered segment.

**Number of products produced across sectors**



**Number of enterprises**



**Recent Initiative by the Government**

Regarding the importance of the MSME sector in the overall development of the economy, a Task Force under the Chairmanship of the Principal Secretary to the Prime Minister was formed in August 2009. The purpose of the task force is to provide a roadmap for the growth and promotion of MSMEs in the rural area and recommend an agenda for immediate action to provide relief and incentives To the MSMEs, accompanied by institutional changes and detailing of program to be achieved in a time bound manner. In summation, it suggests setting up of appropriate legal and regulatory structures to create a conducive environment for entrepreneurship and growth of MSMEs in the nation. The

Task Force has placed emphasis on timely implementation of the recommendations and has set up a scheme for its continuous monitoring in the Prime Minister’s Office. A Council on MSMEs under the chairmanship of Hon’ble Prime Minister has also been formed to lay down the broad policy guidelines and critique the development of the MSME sector. First steps from within the sector to lobby favorable policies and increasing credit flow are credible. The sector has also recognized the need for technological and modernization initiatives. Nevertheless, with economic liberalization and changes in the trade policy, MSMEs have now started facing increased competition from foreign societies. As global competitiveness becomes intensified, MSMEs are transitioning to a new business environment with the emergence of global supply chains. MSMEs form an entire component of most every value chain and in that respect is a symbiotic relationship between the big corporations and their relatively smaller sized suppliers. Yet, in a liberalized world, the relationships between the providers and buyers are undergoing dynamic changes with the breakup of existing relationships and the establishment of new trade linkages that go past the barriers of nationality and boundaries. Even the domestic market is no more an insulated zone in a controlled economy; the competitive pressures of a free market economy are catching up in India. The domestic market has been deluged with many low cost, fair quality, mass produced products giving tough competition to MSMEs. With the opening up of the economy, MSMEs need to fascinate up with global measures in order to stay competitive and profitable. To earn the competitive edge, enhance efficiency and manage communication, this sector is set to focus on ICT enablement. Small scale industries face limited needs for ICT given their organization and construction, notwithstanding, the medium scale industries have set about restructuring Themselves to accommodate these alterations.. The possibility of international trade has driven many to build an online presence. E-commerce and enterprise management solutions are also being taken by many. The Government of India has developed key strategies to encourage and support the MSME sector to boost competitiveness. This has resulted in a dramatic positive change in the sector. Key characteristics of Indian MSMEs such as high contribution to domestic production, significant export earnings, low investment requirements, functional flexibility, location wise mobility, capacities to develop appropriate indigenous technology, import substitution, contribution towards defense production, technology-oriented industries, and competitiveness in domestic and export markets help them tap opportunities in diverse sectors. Some of the key announcements for MSMEs in the Union Budget, 2010-11 are:

- Allocation for MSMEs to be increased from Rs 1,794 crore to Rs 2,400 crore for the year 2011Corpus for Micro Finance Development and Equity Fund to be doubled to Rs 400 crore for 2011
- Extension of existing interest subvention of 2 per cent for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises
- Limit of turnover for the purpose of presumptive taxation of small businesses enhanced to
- Rs 60 lakh

The increment in the extension of existing interest subvention of 2 per cent of the small and medium enterprises is a positive growth. Laying up of the High Level Council on MSME to monitor the execution of the recommendations of Prime Minister's High Level Task Force and increase in the allocation for MSMEs augurs well for the overall growth of this sector.

### **Key constraint faced by Indian economy**

At present, the sector is taking limited steps in formulating development strategies and playing along with the pace of GDP. In sum, the sector also adopts a reactive strategy approach where the sector reacts is being accorded the current economic situation of the country. The productivity and growth becomes limited for the moment and growth comes back down once more. Therefore, the sector needs to adopt a proactive strategic approach where the government should produce a medium to long term strategy to defend themselves in the changing economic scenario and progress beyond the current GDP growth.

### **Access to finance**

The present domestic market conditions do not provide equal opportunities for the MSME sector for raising low cost funds. To improve the flow of credit there is a need to provide low cost financing to the MSME sector, which has limited working capital and is dependent solely on finance from public sector banks. The cost of credit in the Indian MSME sector is higher than its international peers. A transparent credit rating system, simplification/reduction in documentation for accessing finance, providing interest rate subvention to the MSME sector must be adopted into consideration in order to maintain the development of the MSME sector. The most important issue hindering the growth, nevertheless, is the timely and adequate availability of finance to MSMEs. Granting to the Prime Minister's Task Force on MSME report, although bank credit to the sector has significantly increased from Rs. 70,787 crore (need conversion in US\$) in March 2000 to Rs. 2,69,153 crore (need conversion) in March 2009, access to credit needs to further increase given the size of the MSME sector. The share of credit to the MSME sector in Net Bank Credit (NBC) has declined from 22.3 per cent to 15.9 per cent during the same period. The course has been resumed in the graph below:

The Government is taking proactive steps to guarantee better access to credit. Bank lending to the sector will rise at a pace of 20 per cent on a year-on-year (y-o-y) basis, along with 10 per cent annual increase in the number of micro enterprise accounts, with 60 per cent of the shares of MSME credit directed towards micro enterprises. These and other such steps will ensure that credit flow to the sector, especially micro and minor enterprises, are equal.

Despite such measures banks are loath to lend to MSMEs due to their higher risk profile owing to zero collateral or their limited years of operations. In a recent survey issued by the Indian School of Business (ISB), it was found that large Indian firms (the houses above the MSME threshold by the official definition) obtained about 47 per cent of their entire financing from internal Informants, 19 percent of banks and financial institutions (FIs), and 5 per cent In case of MSMEs, only 15 percent of funding came from internal sources, 25 per cent of banks and FIs, and 10 per cent of capital markets. Approximately 50 percent time of the financing has been

sourced through alternative financing sources including friends and family, trade credit etc. Alternative sources are typically far a guaranteed source. This clearly implies that MSMEs face very high interest cost due to the lack of accessibility of adequate credit. This can be countered well through a methodical induction of equity capital. Over the final decade, there have been private equity investments, of all types and across a myriad of industries. We are simply introducing an era where an increasing number of family business owners will be looking to partially or fully divest their ownership in firms they or a family member founded. PE promotes entrepreneurship and brings domain expertise from their portfolio companies, previous industry experience and their network. In addition to internal expertise, they can bring in external knowledge of best demonstrated practices across industries. PE improves corporate governance by driving independence of boards and help increase transparency and reporting standards. It could also provide admission to new customers through board access, portfolio firms or networks. The graph below clearly shows that accessing PE funding has become the favorite mode for budding entrepreneurs to put up capital at an attractive price. According to Grant Thornton's Deal Tracker (Annual Edition 2010), the first quarter of 2010 had seen the utmost value and volume of deals since Q1 2006 clocking US\$ 20 billion in total M&A and PE deal values – this clearly indicates the tendency of strong corporate growth which is translating to more investments.

### **Issues and Concerns**

#### **Methodology**

The survey covered 67 respondents across diverse geographies including Maharashtra, Karnataka, West Bengal, Uttar Pradesh, New Delhi, Andhra Pradesh, Tamil Nadu, Gujarat, and Rajasthan. Over 97% of our respondents were from micro and minor enterprises, i.e. 28% from micro and 69% from small to be precise, and only one respondent categorized as 'large' as under the definition of MSMEs. Further, more than 97% of participants were registered enterprises, with 76% of those surveyed involved in manufacturing, 15.3 % in trading, and the remainder in the inspection and repair sector. In conditions of legal structure of respondents, 44.44% were structured as private limited companies, 23.5% as partnerships, and 28.6% as proprietorships.

#### **Determinations**

As required, banks remain a predominant source of finance for MSMEs with over 70% of respondents accessing finance from banks. Nevertheless, banks also bring their own band of troubles. More than 40% of those surveyed complained that the chief problems include banks placing too much emphasis on collaterals and the great quantity of paperwork required. Further, 18% felt that project appraisal system is un-standardized and 35% felt that the procedures for sanctions are cumbersome, and even once approved there is a delay in disbursement of funds (28%). Other hardships faced by MSMEs include a high rate of pursuit, a lack of individualized service and often a lack of justification for denial of finance. Aside from banks, however, internal sources of funds remained the most popular author of alternate finance for 37% of respondents, closely pursued by 'family and friends' for 15% of those reviewed. In conditions of institutional sources, 17.6% accessed NBFCs for finance

and 13.7% looked at private placements for meeting their funding requirements. Private equity, however, was a workable alternative for only 10% of those reviewed. Interestingly, there were 3 companies in our survey who experienced no other alternate source of finance apart from their respective banks there is considerable argument on why companies do not look beyond bank financing. For object lesson, a closer look at the reasons for private equity not being a support option for commercial enterprises are rather noteworthy. Over 65% of our respondents, in fact, acknowledged that there was actually a lack of reading on their share of the benefits of private equity! Another 21% were afraid that private equity would lead to a dilution of control, and the remainder felt that they felt no real need to access private equity at this period in time. Another indicator of the lack of data in the market was our question on the extent to which respondents felt that the government's Credit Guarantee Scheme had helped their unit access collateral free credit from Banks. Just 18% of those surveyed felt that the scheme had been of some service to them while around 40% of those surveyed were not yet cognizant of the outline! The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) is an initiative by the Government of India (GOI) and Small Industries Development Bank of India (SIDBI) where the principal aim is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. These effects are, in fact, in line with the effects of an earlier study conducted by FICCI on MSMEs in Maharashtra, where it was found that 41% of our respondents found it very 'difficult' to access information on the strategy, and the overall experience for over 32% with respect to this scheme was in fact 'negative'.

### **Government initiative**

The Ministry has led various initiatives to facilitate MSMEs to enhance their market access both inside and outside the state. Various organizations under the Ministry of MSME organize exhibitions/ fairs and buyer-seller meets across the country, providing MSMEs with an opportunity to exhibit their products and capabilities. The Marketing Assistance and Technology Up-gradation Scheme for Micro, Small and Medium Enterprises, a program of MSME Ministry, envisages that some clusters of MSMEs, which deliver quality production and export potential, shall be identified and encouraged and helped through the system to achieve competitiveness in the internal and international marketplaces. The plan aims at improving the market competitiveness of the sector. The activities planned under the scheme include technology upgradation in packaging, skills upgradation/ development of innovative merchandising techniques, competition studies of threatened products, recognition of new markets through land and district levels, local exhibitions, craft fairs, corporate governance practices, marketing hubs and reimbursement to ISO certification. Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is extended to individuals for participation in overseas fairs/ exhibitions/ study tours. The Ministry of MSME has also developed two schemes under the National Manufacturing Competitiveness Program (NMCP) to smoothen the marketing of MSME products. The actions held under these components include assistance for adoption of bar code, technology upgradation in packaging and skill upgradation/ development for innovative marketing

techniques. Further, the National Small Industries Corporation (NSIC) has set up a B2B web portal and established a Marketing Intelligence Cell for providing domestic and global market information to the MSMEs. Several industry associations play a pivotal role by undertaking sector specific market studies and also by initiating/ contesting anti-dumping lawsuits.

The Ministry has also devised a public procurement policy for MSMEs, which will offer them support in marketing their merchandise and growing long-term relationships in production/ service value chains with the public sector.

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