

# **Role of Micro, Small and Medium Enterprises (MSME) In Economic Development In India.**

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## **ABSTRACT**

Micro, Small and Medium Enterprises (MSME) form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. MSMEs play a vital role in generating employment, utilizing local resources, reducing regional imbalance. India accorded high priority to Small and Medium Enterprises (SMEs) from the very beginning and pursued support policies to make these enterprises viable, vibrant and overtime, these have become major contributors to the GDP. Over the last few years, there have been major policy changes at the federal and state level aimed at consolidating and developing this sector. The MSME Development Act of 2006 is perhaps the most crucial of these recent policy changes. MSMEs are generally more common in rural areas than larger businesses especially in developing countries like India, thus providing much needed employment in rural areas. In India Manufacturing SMEs accounted for around 40% of industrial output and 40% of all exports alongwith large employment generation and create 1.3 million jobs every year. It produces more than 8000 quality products for the Indian and International markets. Service sectors are by far the most important contributors, accounting for 79% of SMEs contribution to GDP in United States. In India, its contribution towards GDP in 2011 was 17% which increased to 22% in 2012. India is a growing service economy and thus provides an opportunity for SMEs growth and achieve balanced growth. SMEs can in fact become the engines that sustain growth for long term development for India. When growth becomes stronger, SMEs gradually assume a key role in industrial development and re-structuring. Moreover, the MSME sector has weathered and over-come stiff competition in the post liberalization period in the domestic and international arena.

**Key words: MSME, India, Small and Medium Enterprises, Economic Growth.**

## **INTRODUCTION**

The Micro, Small and Medium Enterprises (MSMEs) are the major drivers of Indian economy. It plays a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes in the manufacturing output, employment and exports. MSME sector has emerged as a dynamic and vibrant sector of the economy. This sector accounts for about 45 percent of manufacturing output, 40 percent of total exports and employs more than 59 million people. This sector produces a variety of products ranging from traditional to sophisticated products. It is expected that Indian economy will grow by over 8 percent per annum until 2020. The major advantage of this sector is its generating employment at low cost. It helps in the industrialization of rural and backward areas. It reduces regional imbalance. It provides equitable distribution of national income and wealth.

### **THE INDIAN MSME SECTOR : An Overview**

The MSME sector is a significant contributor to the Indian economy. Based on official figures from the Ministry of MSME, November 2008, this sector contributes 8% of National GDP, comprises 50% of India's total manufactured exports, 45% of India's total industrial employment and 95% of all industrial units. The SME sector in India, however, has been changing over time, mostly through changes in government policy. In accordance with the provision of Micro, Small and Medium Enterprises Development Act 2006, the micro, small and medium enterprises are classified into two classes.

**(a) Manufacturing Enterprises-** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951. The Manufacturing Enterprise is defined in terms of investment level in plant & machinery.

**(b) Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified are as under:

### **Manufacturing Sector**

<b>Enterprises</b>	<b>Investment in plant &amp; machinery</b>
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

### **Service Sector**

<b>Enterprises</b>	<b>Investment in equipments</b>
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Source: MSME Development Act 2006, Ministry of the District Industry Centers (DIC) MSME, Government of India.

### **CURRENT STATUS OF MSME IN INDIA**

MSMEs are the backbone of the Indian economy. They contribute in GDP and GNP of India. It acts as a breeding ground for entrepreneurs to grow from small to big. MSME sectors are increasing enormously in India. As per data released by the Ministry of MSME, Government of India, at present, there are about 26 million enterprises in this sector. The sector has a share of 45 percent in the manufactured output and 8 percent in the GDP. MSMEs contributed close to 40 percent of all exports from the country and employed nearly 59.7 million people, which is next only to agricultural sector. As on March 2013 there are 2032 specialized MSME branches (source-RBI). As per Fourth Census of the MSMEs, Micro Enterprises account for 94.94 percent of working enterprises of MSME sector followed by 4.89 percent of Small Enterprises and merely 0.17 percent of Medium Enterprises. Regarding nature of activity, about 67 percent of MSMEs are engaged in manufacturing activities, about 17 and 16 percent of enterprises in repairing and maintenance respectively. The proprietary concerns dominate the MSME sector with limited partnership firms and negligible number of public limited and cooperatives.



**Figure 1: Annual Growth Rate during 2007-08 to 2012-13.**



Source : Ministry of MSME.

The above graph depicts the growth trend in MSME sector which indicates an upward moving growth trend. Though in initial few years, there was steady growth rate of around 10-11% which shot up to 19% during the period 2010-11 to 2011-12, whereas in year 2012-13 growth rate was 13.89%.

## **PERFORMANCE OF MSMEs**

**Production:** As per Fourth Census of the MSMEs, Micro and Small Sectors have shown almost similar share in gross output (44 and 45 percent respectively) with relatively lower share by Medium Enterprises (10 percent). However, this statistic shows poor productivity by the Micro Units as even after acquiring about 94% of units in MSME sector, their gross output is even lower than that of small enterprises. Per unit gross output has shown an increase from Rs.14.78 lakh in Third Census to Rs.45.24 lakh in Fourth Census. However, this increase is mainly due to putting Micro, Small and Medium Enterprises into the same bracket through the enactment of MSME Act, 2006. The estimated value of manufacturing output of MSME Sector and its share in total manufacturing output and GDP are as noted below:-

**Table-1: Contribution of Manufacturing output of MSME in GDP, (at 2004-05 prices)**

Year	Gross Value of Output (Rs. in Crore)	Percentage Share of MSME	
		Total Manufacturing Output	Gross Domestic Product(GDP)
2006-07	1198817.55	42.02	7.73
2007-08	1322960.41	41.98	7.81
2008-09	1375698.60	40.79	7.52
2009-10	1488390.23	39.63	7.49
2010-11	1655580.60	38.48	7.42
2011-12*	1790804.67	37.52	7.28

Note: \* - Provisional.

Source: Annual Report 2013-14 Govt. Of India , MSME.

### **Employment:**

As per Fourth Census of the MSMEs, Micro Enterprises generate 70 percent of employment followed by 25 percent by the Small Enterprises and only 5 percent by the Medium Enterprises. However, average employment provided by the Medium Enterprises is much higher (160.87 per enterprise) than that of small enterprises (30.62 per enterprise) and micro enterprises (4.40 per enterprise). Thus, employment generation in terms of total number may be high by the Micro Enterprises but their average employment generation capacity is extremely low. Per unit employment of the sector has gone up to 5.95 persons during Fourth Census compared to 4.48 persons in Third Census. However, employment per Rs. One lakh in fixed investment has registered a decline from 0.67 persons to 0.21 persons during Fourth Census.

**Table-2: Employment**

Year	Employment (in Lakh)	Year	Employment (in Lakh)
2001-02	249.33	2007-08*	842.00
2002-03	260.21	2008-09*	880.84
2003-04	271.42	2009-10*	921.79
2004-05	282.57	2010-11*	965.15
2005-06	294.91	2011-12*	1011.80
2006-07	805.23	2012-13*	1061.52

Source: Annual Report 2013-14 Govt. Of India , MSME.

Note-\* -Projected.

**Export:**

As per Fourth Census of the MSMEs, only 3 percent of MSMEs in India undertakes export activities. Out of such firms, Micro Enterprises account for a substantial 86 percent share followed by Small Enterprises (13 percent) and Medium Enterprises (1 percent). This result confirms that the Micro Enterprises have very promising foreign market for their products. The export composition of the MSMEs has undergone a structural shift from traditional to non-traditional during the liberalization period.

**Export= Rs. Crore. Table-3**

Year	Export	% Increase
2000-01	69797	28.78
2001-02	71244	2.07
2002-03	86013	20.73
2003-04	97644	13.52
2004-05	124417	27.42
2005-06	150242	20.76
2006-07	182538	21.50
*2007-08	202017	10.67
*2008-09	NA	
*2009-10	NA	

**Source:** Annual Report 2010-11 Govt. of India, Ministry of Micro, Small and Medium

**Note:** [1] Data up to 2005-06 is only for SSI sector. Subsequent to 2005-06, data related to MSME sector is being compiled.

[2] Export data for 2008-09 and 09-10 are not available

[3]\* Projected {Source: S&D Division - Office of the DC (MSME)}



## **CHALLENGES FACED BY MSMEs**

MSMEs are very important in the economic growth of India but this sector is not getting sufficient support from the concerned government Departments, banks, financial institutions and corporate. This proves hurdle in the growth path of the MSMEs.

MSMEs faces a number of problems-

- Limited capital and knowledge, non-availability of suitable technology.
- Absence of adequate and timely banking finance.
- High cost of credit.
- Lack of skilled man power for manufacturing, services, marketing etc.
- Low production capacity.
- Problems of storage, designing, packing and product display.
- Inadequate infrastructure facilities, including power, water, roads.

## **OPPORTUNITIES**

### **Exposure to foreign markets:**

Globalization has opened up the economy and integrated it with the world economy. The MSMEs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic market. The free economy ushers in accessibility to bigger markets, greater linkages for SMEs with larger companies and marketing outfits, improved manufacturing techniques and processes.

### **Flow of foreign investment and technology:**

The MSMEs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have tied up with Indian MSMEs and helped them to use better Technology, managerial skill etc. Thus, a proper collaboration between the small and large companies can help small firms to develop technology base through Research & Development activities, contribution from the technological institutes, universities etc.

### **Less Govt. Intervention:**

As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The MSMEs would be allowed to work in a free environment.

**Employment generation:**

Being labour-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products produced by this sector have good demand in market. The MSMEs have been a good source of employment generation and can be even more if the sector gets support in terms of infusion of technology, capital and innovative marketing techniques etc.

**Better Customer Satisfaction:**

As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products as per the needs and preferences of consumers and satisfy the customers in best possible way.

**Export contribution:**

The products produced by MSME sectors (like sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products, handicrafts etc) have an excellent foreign market. As per the results of fourth MSME census (2006-07), this sector has registered an export earning of Rs 202017 crores in 2007-08.

**Removal of Regional disparity:**

People from remote areas have the tendency to migrate to urban areas in search of jobs. This creates excessive pressure on urban areas and initiates social and personal problems. This problem can be addressed by setting up a network of micro, small and medium enterprises in economically backward areas. MSME sector can take care of local needs, improve economic condition of the area and most importantly, can bring a qualitative change in the economy of the country.

**CONCLUSION & RECOMMENDATION**

The MSMEs are one of the major segments of the Indian economy. It plays a critical role in the development of Indian economy. MSMEs will continue to play a very important and vital role in our economy where the twin problems of unemployment and poverty constitute a major development



challenge. They face extreme competition from large Industries due to withdrawal of subsidy, lack of infrastructure, anti dumping policy, challenges on product standardization etc. Government must adopt some of the important steps like linkages or network with foreign buyers, encouraging industrial clusters, benchmarking MSME Associations and compulsory registration for all MSMEs to build a strong database, establishment of modern testing centres and laboratories in all districts, formulating easy exit policy for the sick MSME units etc.

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