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## **Micro, Small and Medium Enterprises (MSMEs) in India: An Engine of Employment and Economic Growth**

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### **Abstract:**

*The present study attempts to examine the performance of MSME sector in generating employment and to highlight the contribution of MSME sector to the total industrial production and gross domestic product. The results of the study show that the number of the person employed in MSME sector has increased more than five times in a time span of twelve years from 2001-02 to 2012-13. While the value of manufacturing output of this sector has increased, the contribution of this sector to the total industrial production and Gross Domestic Product (GDP) has marginally declined. This justifies the need for MSME sector to improve its productivity. The government-supporting measures and policies, should promote MSMEs by helping them to increase their efficiency and competitiveness within a market driven economy. Undoubtedly, the MSME sector has enormous potential and is a crucial aspect of the Indian economy. However, it is essential on the part of the government to take careful decisions and honest policy implementation to overcome the problems of MSME sector.*

**Keywords:** MSMEs, working enterprises, employment, contribution to industrial production and gross domestic product

### **1. Introduction**

Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. MSMEs have been globally considered as an engine of economic growth and as a key instrument for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of large enterprises. The MSMEs constitute more than 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, MSMEs play an essential role in the overall industrial economy of the country. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services and levels of technology. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in the industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socio - economic development of the country.

Uma.P in her study on 'MSMEs and employment in India: an analytical study' has come to the conclusion that the MSMEs have a distinct privilege of low investment with high potential to create employment generation. It also helps in eradicating regional imbalances by dispersal of industries in rural areas. The Indian economy can look forward to a prosperous future in MSME sector. Especially micro enterprises, which substantially play a basic role in employment generation and bring forth the entrepreneurship at grass root level. These sectors should be given prominent role and must be compared extensively. These enterprises are labour intensive and require less capital, help in eradicating socio - economic problems like unemployment, poverty and regional imbalances. Another study by Shiralashetti.S reveals that the MSMEs play a pivotal role in the overall industrial economy and of GDP of the country. It has been estimated that in terms of value, the sector accounts about 39% of the manufacturing output and 5.94% in gross domestic product in 2006-07. Ishu Garg and Suraj Walia in their study have attempted to examine the performance of MSME sector in post-reform India. This study reveals that 732.17 lakh persons have been employed in the MSME sector in 2010-11. The MSME sector contributes 44.86% in the overall industrial production and 8.72% in gross domestic product in 2008-09. Another study carried out by Kalyan Kumar and Sardar Gugloth has suggested that MSMEs are a very important segment in the Indian industrial sector and would continue to play a crucial role in the Indian economy in the future. It also brings in huge amounts of foreign investment into the

country and provides employment opportunities for many people in the country which in its turn helps to reduce the level of poverty in the country. A rewarding feature of economic development in India has been impressive growth of modern MSMEs.

## 2. Methodology

In this paper an attempt has been made to examine the performance of MSMEs in generating employment and to highlight the contribution of this sector to total industrial production and gross domestic product in India. This study is exclusively based on secondary data. The necessary data required for the study have been collected from the Annual Reports of Ministry of Micro, Small and Medium Enterprises, Government of India. The study considers the time period from 2001-02 to 2012-13. Percentage and simple growth analysis have been employed in this study to analyze the data.

### 2.1. Micro, Small and Medium Enterprises in India

The MSME sector consists of any enterprise, whether proprietorship, hindu undivided family, association of persons, co-operative society, partnership or undertaking or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of industry development and regulation act, 1951 and other enterprises engaged in production and rendering service, subject to limiting factor of investment in plant and machinery and equipments respectively as noted below.

#### 2.1.1. For Manufacturing Sector, an Enterprise is Classified as Follows

1. Micro Enterprise: Investment in plant and machinery does not exceed twenty five lakh rupees
2. Small Enterprise: Investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crores rupees
3. Medium Enterprise : Investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees

#### 2.1.2. In Case, Enterprise is engaged in providing or rendering of Services, it is classified as Follows

1. Micro Enterprise: Investment in equipment does not exceed ten lakh rupees
2. Small Enterprise: Investment in equipment is more than ten lakh rupees but does not exceed two crore rupees
3. Medium Enterprise: Investment in equipment is more than two crore rupees but does not exceed five crore rupees

Sector	Enterprises	
	Manufacturing (Ceiling on investment in plant and machinery)	Service (Ceiling on investment in equipment)
Micro	Up to Rs.25 lakhs	Up to Rs.10 lakhs
Small	More than Rs.25 lakhs and up to Rs.5 crores	More than Rs.10 lakhs and up to Rs.2 crores
Medium	More than Rs.5 crores and up to Rs.10 crores	More than Rs.2 crores and up to Rs.5 crores.

*Table 1: Classification of MSME  
(As per Micro, Small and Medium Enterprises Development Act, 2006)  
Source: Ministry of Micro, Small and Medium Enterprises, Government of India.*

### 2.2. Registered and Unregistered Sector

Enterprises registered with District Industries Centre in the state/UTs, Khadi and Village Industries Commission/ Khadi and Village Industries Board as on 31-03-2007 and factories under the coverage of section 2m (i) and 2 m (ii) of the factories Act, 1948 used for the annual survey of industries having investment in plant and machinery up to Rs.10 crores, are considered to belong to registered sector. All MSMEs engaged in the activities of manufacturing or in providing/rendering of services, not registered permanently or not filed Entrepreneurs Memorandum part-II (EM-11) with state Directorates of Industries/ District Industries Centre on or before 31.03.2007 are called unregistered MSMEs. Those enterprises that are temporarily registered on or before 31.03.2007 as also the units that are temporarily or permanently registered or filed EM-II after 31.03.2007 till the date of sample surveys, conducted as part of Fourth All India Census of MSMEs 2006-07, are treated as unregistered MSMEs. All unregistered MSMEs, covering both manufacturing and services sectors, constitute unregistered sector.

### 2.3. Employment in MSME Sector

Prior to implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the sector was defined as per the provision of Industrial Development and Regulation Act, 1951 as Small Scale Industries (SSI) sector and its constituent tiny and auxiliary units as per periodic revision of criteria for defining such units. The third All India Census of SSI was conducted with coverage and concepts as prevailing during 2001-02. The scope and coverage of the MSME sector were broadened significantly under the MSMED Act, 2006, which recognized the concept of 'enterprise' and to include both manufacturing and services sector, besides defining the medium enterprises under the MSME sector. Thus, the entire non – agricultural sector of the economy was brought under the coverage of the MSME sector subject to the revised criteria prescribed for defining Micro, Small and Medium Enterprises separately for manufacturing and services sectors. The latest census conducted by MSME is Fourth All India Census. This census has

been conducted with the reference year 2006-07, wherein the data have been collected till 2009 and the results have been published in 2011-12. Fourth All India census of MSME is the first census conducted after the implementation of the MSMED Act, 2006. The census has adopted different methodology for registered and unregistered sectors. While complete enumeration of enterprises was adopted in the registered sector, sample survey was resorted to in the unregistered sector. However, activities under wholesale/retail trade, legal, educational and social services, hotels and restaurants, transports and storage and warehousing (except cold storage) have been excluded from the coverage of sample surveys. For these activities, data have been extracted from Economic Census (EC), 2005 conducted by the Central Statistics Office (CSO) of the Ministry Of Statistics and Programme Implementation (MOSPI) for estimation of MSME relevant enterprises.

Year	Total Working Enterprises (in lakhs)	Employment (in lakhs)
2001-02	105.21	249.33
2002-03	109.49 (04.06)	260.21 (04.36)
2003-04	113.95 (04.07)	271.42 (04.31)
2004-05	118.59 (04.07)	282.57 (04.11)
2005-06	123.42 (04.07)	294.91 (04.37)
2006-07	361.76 (193.11)	805.23 (173.04)
2007-08#	377.36 (04.31)	842.00 (04.57)
2008-09#	393.70 (04.33)	880.84 (04.61)
2009-10#	410.80 (04.34)	921.79 (04.65)
2010-11#	428.73 (04.36)	965.15 (04.70)
2011-12#	447.66 (04.41)	1011.80 (04.83)
2012-13#	467.56 (04.44)	1061.52 (04.91)

Table 2: Employment in SSI/MSME sector

Source: Annual Report 2013-14, Ministry of Micro, Small and Medium Enterprises, Government of India

Note: The figures in brackets show the percentage growth over the previous year.

# - Projected.

As per the results of Fourth All India Census of Micro, Small and Medium Enterprises, the sector contributes significantly to the number of working enterprises and employment. Based on the data sets of Third and Fourth All India Census of SSI/MSME, augmented with data sets of EC-2005 of CSO, the performance of SSI/MSME sector in employment generation is summarized in the Table No.2 It is clear from the table that the total numbers of working enterprises in MSME have increased from 105.21 lakhs in 2001-02 to 467.56 in 2012-13. The working enterprises have grown more than four times in the time span of twelve years from 2001-02 to 2012-13. Similarly, the number of the persons employed in this sector has increased remarkably from 249.33 lakhs in 2001-02 to 1061.52 lakhs in 2012-13, by showing a growth of more than five times during the period from 2001-02 to 2012-13.

#### 2.4. Contribution of MSME (Manufacturing sector) in GDP

MSMEs constitute an important and crucial segment of the industrial sector in Indian economy. By contributing to the overall growth of industrial output and gross domestic product, the sector has emerged as an engine of growth for Indian economy. The performance of MSMEs has a direct impact on the growth of overall economy. The contribution of MSME (Manufacturing sector) in total industrial production and gross domestic product is highlighted in table No.3

Year	Gross value of output (Rs. in Crores)	% Contribution of MSME in	
		Total industrial production	Gross domestic product
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

Table 3: Contribution of manufacturing output of MSME in GDP (at 2004-05 prices)

Source: Annual Report 2013-14, Ministry of Micro, Small and Medium Enterprises, Government of India

Note: # Provisional

It is evident from the table that the value of manufacturing output of MSME has increased from 1198817 crore in 2006-07 to 1790804 crore in 2011-12 but the percentage share of MSME in total industrial production has declined from 42% in 2006-07 to 37.5% in 2011-12. Similarly, the contribution of MSME sector to the gross domestic product has marginally declined from 7.73% in 2006-07 to 7.28% in 2011-12 which justifies the need for MSME to improve its productivity, quality, reduce cost, competitiveness and innovation.

### 3. Conclusion

In this paper an attempt has been made to examine the performance of MSME in generating employment and to highlight the contribution of manufacturing sector of MSME to the total industrial production and to gross domestic product in India. The results of the study show that the MSMEs have credited with generating the highest rate of employment growth. The MSMEs provide immediate large scale employment, with lower investment and prove to be a second largest manpower employer, after agriculture and occupy a prominence in Indian economy. The number of persons employed in this sector has increased from 249.33 lakhs in 2001-02 to 1061.52 lakhs in 2012-13 by showing a growth of five times in the span of twelve years from 2001-02 to 2012-13. The value of manufacturing output of MSME has increased from 1198817 crores in 2006-07 to 1790804 crores in 2011-12. However, the contribution of MSME in total industrial production has decreased from 42% in 2006-07 to 37.5% in 2011-12. Similarly, the share of MSME sector in gross domestic product has marginally declined from 7.73% in 2006-07 to 7.28% in 2011-12. The results justify the need of MSME sector to improve its productivity and competitiveness in the long run. The government policy should promote MSMEs by helping them to increase their efficiency and competitiveness within a market driven economy. For this it is essential that these enterprises no longer follows a protection stance, as that has already been shown to be harmful to the sector. In order to prevent the major sickness in MSME sector, new approaches like the cluster approach or harnessing the power of industry association should be encouraged. Undoubtedly, the MSME sector has enormous potential, and is a crucial aspect of the Indian economy. However, it is essential on the part of the government to take careful decisions and honest policy implementation to overcome the problems of MSME sector. A technologically vibrant, internationally competitive small and medium industry should be encouraged to emerge, to take a sustainable contribution to national income and employment. It is imperative to take care of MSME sector to enable it to take care of the Indian economy.

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