

Available online at <http://www.ijims.com>

ISSN - (Print): 2519 – 7908 ; ISSN - (Electronic): 2348 – 0343

IF:4.335; Index Copernicus (IC) Value: 60.59; UGC Recognized -UGC Journal No.: 47192

An Analysis of Growth of MSMEs in India and Their contribution in Employment and GDP of the Country

Vinay Kumar

Assistant Professor, Department of Management Studies,, BGSB University, Rajouri (J and K)

Abstract

The Micro, Small and medium enterprises of India is an important driving factor for the growth of Indian Economy. These MSMEs not only provide the employment opportunities but helps in the process of industrialization in rural areas simultaneously reducing the unequal income distribution among the residents. The MSMEs contribute significantly in the development of Indian economy through export production, domestic production, low investment requirements, operational flexibility, technology oriented enterprises etc. The SMEs are complimentary to large industries operating in the economy & contribute significantly in the development of the country. On an average this sector has almost 36 million units that provide employment to about 80 million individuals. This sector through the production of 6000 products contributes 8% to GDP of the country. It constitutes the 45% portion of the total manufacturing output and 40% of the total exports of the country. So, this paper has made an attempt to understand the role of MSMEs in providing employment opportunities & push towards the inclusive development of the country. The various problems faced by these MSMEs in executing their operations have also been discussed in this paper. The data for the study has been collected from the various secondary sources such as government websites, magazines, various reports & news papers.

Keywords: MSMEs, GDP, Employment, Inclusive growth, economic development.

Introduction

The Micro, Small and medium enterprises of India is an important driving factor for the growth of Indian Economy. These MSMEs helps in reducing the unbalanced income distribution among the people through the way of providing employment opportunities & industrialization of these areas. The MSMEs contribute significantly in the development of Indian economy through export production, domestic production, low investment requirements, operational flexibility, technology oriented enterprises etc. The SMEs are complimentary to large industries operating in the economy & contribute enormously to the socio-economic development of the country. On an average this sector has almost 36 million units that provide employment to about 80 million individuals. This sector through the production of 6000 products contributes 8% to GDP of the country. The Ministry of Micro, Small & Medium Enterprises of Government of India has the responsibility of designing policies, projects & schemes for the development and promotion of these MSM enterprises. The successful implementation of these schemes is also assured by the monitoring responsibility of Ministry if MSMEs. Primarily the State Govt. has the responsibility of promotion & development of the MSMEs and their efforts are supplemented by the Central Government. The primary responsibility of the promotion and development of these MSMEs is of the State Government but the Central govt. also assists the state govt. through number of its initiatives. The schemes & various initiatives of Ministry of MSMEs & other organisations seeks to provide the following facilities: Adequate flow of credit from financial institutions/banks, Support for technology up-gradation and modernization, Integrated infrastructural facilities, Modern testing facilities and quality certification, Access to modern management practices, Entrepreneurship development and skill up gradation through appropriate training facilities, Support for product development, design intervention and packaging, Welfare of artisans and workers, Assistance for better access to domestic and export markets, and Cluster-wise measures to promote capacity-building and empowerment of the units and their collectives. The various commissions, institutions , organisations & acts has been setup by the concerned Ministry to promote & develop the various industries at micro, small and medium levels. Some of the important institutional setups are as: Micro, Small and Medium Enterprises Development (MSMED) Act 2006 , Khadi & Village Industries Commission (KVIC), Coir Board, National Small Industries Corporation (NSIC) Ltd., Mahatma Gandhi Institute for Rural Industrialisation (MGIRI), National Board for Micro, Small and Medium Enterprises (NB MSME), and National Institute for Micro, Small and Medium Enterprises.

Classification of Micro, Small & Medium Enterprises for Manufacturing & Service Sector

Classification	Manufacturing Enterprises (Investment limit in Plant & Machinery)	Service Enterprises (Investment limit in equipment)
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs.50 million / Rs. 5 crore	Rs. 20 million / Rs 2 crore
Medium	Rs 100 million / Rs 10 crore	Rs. 50 million / Rs 5 crore

Review of Literature

Ghatak, Shambhu (2010) in his paper titled "Micro, small and medium enterprises (MSMEs) in India: an appraisal highlighted that status of Indian MSMEs is better than its counterpart in Bangladesh & Pakistan. About 36% of Pakistani SMEs have bank accounts where as about 46% Bangladeshi's SMEs have Bank accounts. In comparison to them about 95% of Indian SMEs have their bank accounts. He further stated that Indian Govt. should accelerate its initiatives to provide further support to these Small scale industries.

Subrahmanya Bala (2011) has analysed the effect of globalization on export potential of Small scale enterprises and have concluded that this impact was high in protection period but has shown the increasing trend in Liberalization period too but it seems to be stagnant growth. Therefore the govt. should continue the policy of enhancing the competitiveness of these SSIs through the infusion of technology, finance & marketing support.

Srinivas, K. T. (2013) in his paper entitled Role of micro, small and medium enterprises in inclusive growth concluded that the The MSMEs has been termed as the engine for the growth of the Country. In the last few years, there has been tremendous change in the national & State level for consolidating this sector. Poor infrastructure & lack of marketing linkages are the key reasons for the poor growth of the MSMEs in India. The support provided by the state as well as Central Govt. is not adequate for the upliftment of the MSMEs in India. Therefore the entrepreneurs in India & Govt. should take some initiatives for further-development of these MSMEs in India.

Objective of the Study

1. To study the current status & growth of MSMEs in India, 2.To study the impact of establishment of MSMEs in India on the employment opportunities and 3.To study the various problems faced by MSMEs in India.

Research Methodology

The study is based on secondary data that has been collected from various secondary sources such as magazines, annual reports, department of MSMEs & various other published reports. The data has been presented in the form of table and interpretations have been made in light of the objectives of the study cited above.

Data Analysis: The data collected from annual report of Government of India for Micro, small & Medium Enterprises for the year 2015-16 reveals that in this section, the total number of enterprises are 361.76 lakhs. Out of which 15.64 lakhs are in registered sector where as 198.74 lakhs are in unregistered sector. In registered sector about 45 % are located in rural areas and 60% of the unregistered sector units are rural units. That means that maximum contribution towards no. of units in MSM category is from rural areas as it is about 55.34% of the total units. Therefore entrepreneurs from rural India are taking more initiatives as compared to urban people to start these micro, small & medium enterprises and hence Govt. should think & devise some special policies to attract these entrepreneurs for starting up the new ventures. If we go deep into the data then it is visible that even women entrepreneurs are now coming up to participate in the establishment of these small scale industries. In this category the women entrepreneurs constitutes about 26.61% of the total no. of units.

Table 1

S.NO.	Characteristics	Registered Sector	Unregistered sector	Economic Census-2005	Total
1	Size of the Sector (in Lakh)	15.64	198.74	147.38	361.76
2	No. of Rural Units (in Lakh)	7.07 (45.20%)	119.68 (60.22%)	73.43 (49.82%)	200.18 (55.34%)
3	No. of Women Enterprises (in Lakh)	2.15 (13.72%)	18.06 (9.09%)	6.40 (4.34%)	26.61 (7.36%)

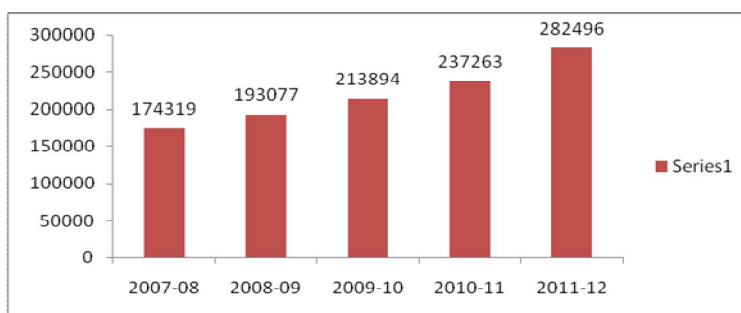
Source: Annual Report 2015-16 GOI Ministry of Micro, Small & Medium Enterprise

Status of filing of Entrepreneurs Memorandum Part-II: The table 2 shows the data on number of entrepreneurs filling Memorandum part-II to the District Industry centres of their localities. As per Micro, Small & Medium Enterprises

Development Act, 2006 it is mandatory for the persons who establishes a micro, small or medium enterprises at his/her own discretion to file a Memorandum of Micro, Small & Medium Enterprise to the District Industries centres for all categories of the enterprises or in the office of the member secretary which acts as the single window clearing agency for the Micro, small & medium enterprises of the area where it is located. The data in the table 2 shows that number of units of MSME have continuously shown the positive trend as it has increased from 1,74,319 in 2007-08 to 2,82,496 in 2011-12. The graph has shown the upward trend of the number of entrepreneurs filling the Memorandum part-II.

Table 2

Year	Micro	Small	Medium	Total
2007-08	156051	17777	491	174319
2008-09	171031	18757	690	193077
2009-10	186126	23999	1412	213894
2010-11	204064	29101	1260	237263
2011-12	242606	34192	2939	282496
Total	959878	123826	6792	1101049
Average	191976	24765	1358	220210

**Table: 03**

Year	Micro	Small	Medium	Total
CAGR	9.23%	13.98%	43.03%	10.14%

Source: data for EM Part-II on MSME sector, GoI, 2011-12

The compounded annual growth rate shown by the MSMEs jointly is 10.14% where as Medium enterprises has shown the good growth rate of 43.03%. The growth rate for micro & small enterprises is 9.23% & 13.98% respectively. Thus the data in the table 3 shows that these categories of industries are growing at good pace and the government is continuously putting more efforts to maintain or even increase this growth rate.

Table 4 Status of MSME Units, Employment, Investments and Gross Output in India

Sl. No	Year	No. of Working Enterprises(in Lakh)	Employment in Lakh	Market Value of FAs (in Crore)	Gross Output (in Crore)
01	2001-02	105.21	249.33	154349.00	282270.00
02	2002-03	109.49	260.21	162317.00	314850.00
03	2003-04	113.95	271.42	170219.00	364547.00
04	2004-05	118.59	282.57	178699.00	429796.00
05	2005-06	123.42	294.91	188113.00	497842.00
06	2006-07	361.76	805.23	868543.79	1351383.45
07	2007-08	377.37	842.23	917437.46	1435179.26
08	2008-09	393.70	881.14	971407.49	1524234.83
09	2009-10	410.82	922.19	1029331.46	1619355.53
10	2010-11	428.77	965.69	1094893.42	1721553.42
11	2011-12	447.73	1012.59	1176939.36	1834332.05
	Avg.	271.89	617.05	628386.36	1034122.14
	CAGR	14.07%	13.59%	20.28%	18.55%

Source: MSME Annual Report-2012-13, Government of India.

Status of MSME, Employment, Investments and Gross Output in India: The data in the table 4 has shown the trend of no. of enterprises in India & employment generated. The number of enterprises in operational in India in 2001-02 were 105.21 lacs which were providing employment to near bout 249.33 lacs and the same figure in 2011-12 are 447.73 lacs which

are providing employment to about 1012.59 lac people across India. The increase in no. of MSMEs over the years is helping now to decrease the problem of poverty and unemployment. Similar increasing trend is there in the market value of the financial assets and gross output. The correlation coefficient between Numbers of working MSMEs & Employment of the country is 0.9999 which is equivalent perfect positive correlation and is significant at 0.01 level of significance as p value is less than 0.05. It also justifies that increase in number of working MSME is leading to the proportionate increase in the employment of the country.

Correlations

		No. of working MSMEs (in Lacs)	Employment in Lacs
No. of working MSMEs (in Lacs)	Pearson Correlation	1	1.000**
	Sig. (2-tailed)		.000
	N	11	11
Employment in Lacs	Pearson Correlation	1.000**	1
	Sig. (2-tailed)	.000	
	N	11	11

** . Correlation is significant at the 0.01 level (2-tailed).

Contribution of MSMEs in total GDP of the country: The gross value of the MSME manufacturing sector was 11,98,818 crores in 2006-07 that has increased to 18,09,976 crore in 2011-12 while making a difference of 611,158 crore. If we look at the contribution of manufacturing sector of MSMEs in the total GDP of the country, then it is roaming around 7 % and on an average this sector has contributed around 7.45 % from the year 2006-07 to 2012-13. Comparatively the contribution of Services sector under MSMEs Category is 28.96% which is a good number. The total contribution of Manufacturing as well as Services sector of MSME to the GDP is 36.41%. This number is very impressive & should motivate the policy makers & entrepreneurs to take some steps to accelerate the growth of this sector.

Table 5

Year	Gross Value of MSME Manufacturing Sector (in Crores)	Share of MSME Sector in total GDP			Share of MSME Manufacturing output in total manufacturing output
		Manufacturing Sector MSME	Services Sector MSME	Total	
2006-07	1198818	7.73	27.40	35.13	42.02
2007-08	1322777	7.81	27.60	35.41	41.98
2008-09	1375589	7.52	28.60	36.12	40.79
2009-10	1488352	7.45	28.60	36.05	39.63
2010-11	1653622	7.39	29.30	36.69	38.50
2011-12	1788584	7.27	30.70	37.97	37.47
2012-13	1809976	7.04	30.50	37.54	37.33
Average		7.45	28.96	36.41	39.67

Source **Fourth All Indi Census of MSME 2006-07, national Accounts Statistics (2014) & Annual Survey of India, CSO, MoSPI**

Correlations

		Gross Value of MSME Manufacturing Sector (in Crores)	Share of MSME Sector in total GDP
Gross Value of MSME Manufacturing Sector (in Crores)	Pearson Correlation	1	.965**
	Sig. (2-tailed)		.000
	N	7	7
Share of MSME Sector in total GDP	Pearson Correlation	.965**	1
	Sig. (2-tailed)	.000	
	N	7	7

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficient between Gross value of MSME over the years & share of MSME over the years is 0.965 and is significant at 99% level of confidence that shows that gross value of MSMEs have increased over the years and has positively contributed towards the GDP of the Country.

Table 6 Contribution of MSME sector (other than services) to the (GDP)

Year	Contribution to Total Industrial Production %	Contribution to Gross Domestic Product (GDP) %
2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

Source: Annual Report of Ministry of MSME for the year 2010-11

Problems faced by MSMEs in India

This includes : Lack of technical support,Lack of training initiatives for the entrepreneurs,Difficulty in getting the financial support,Inadequate infrastructure support,Lack of expertise in marketing of the products,Absence & non-affordability of advanced technology,Severe competition from the national & International Players,Absence of target markets for the products produced,Inadequate support from the banking system for credit facility,Scarcity of skilled labour, and Inadequate information etc.

Conclusion

The MSME sector in India is growing at good pace & even is providing employment opportunities to masses of the people. The contribution of Manufacturing Sector as well as Service Sector of MSMEs is significant to the total GDP of the Country. The Govt. of India has taken number of initiatives & is in the process of gearing up the growth of these Micro, Small & Medium Enterprises in the country. The Govt. of India is also making number of tie-ups & agreements with the NGOs, Governmental agencies as well as with the Universities for making it sure that proper implementation of Governmental policies for setting up of MSMEs is there & entrepreneurs are properly guided for starting their ventures.

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