



## MSME- An Emerging Pillar of Indian Economy

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### Abstract:

*The Micro, Small and Medium Enterprise (MSME) sector has been recognized as engine of growth all over the world. The MSMEs make significant contribution towards economic growth, balanced regional development, employment generation and overall poverty reduction by way of mobilization of capital and entrepreneurship skills. The MSME sector is an important pillar of Indian economy as it contributes greatly towards its growth. It has emerged as an important vehicle for attaining inclusive growth of the country. This paper attempts to focus on the contribution of MSME towards the growth of Indian economy as well as its present scenario in the country.*

**Keywords:** *Contribution, Economic Growth, Employment Generation, Gross Domestic Product (GDP), Micro, Small and Medium Enterprises (MSMEs)*

### Section I: Introduction

Micro, Small and medium enterprises are an integral part of the economy. The Micro, Small and Medium Enterprises (MSMEs) have often been termed as 'engine of growth' for all developing countries including India. They provide employment opportunities to the weakest and poorest strata of the society, giving them a way out of the perpetual poverty that they seem doomed to. MSMEs are providing immediate large scale employment, with lower investments and prove to be a second largest manpower employer, after agriculture and occupy a position of prominence in the economy. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. As per the Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) Growth for 12th Five Year Plan (2012-2017), the sector accounts 45 percent of the manufacturing output and 40 percent of total exports of the country. The sector provides employment to about 80 million persons through 36 million enterprises throughout the country. Over 6000 products ranging from traditional to high-tech items are being manufactured by the MSMEs in the country. The labour to capital ratio in MSMEs and the overall growth in the sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

For a developing nation like India, where the labour is abundant and capital is scarce, the small sector is a major source of employment for millions of people. Keeping in view the importance of SMEs, the Indian government has included this sector in its five-year plans. The development of the micro, small and medium enterprises (SME) sector is on the priority of Government Agenda. As per the Results-Framework Document (RFD) for Ministry of Micro, Small and Medium Enterprises (2012-2013), the Mission of the government is to – "Promote growth and development of globally competitive Micro,

small and Medium Enterprises, including Khadi, Village and Coir industries, in cooperation with concerned Ministries / Departments, State Governments and other stakeholders by providing support to existing enterprises and encouraging creation of new enterprises. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country.

## 2. Definitions of Micro, Small & Medium Enterprises

In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two Classes:

- **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 Enterprises are defined in terms of investment in Plant & Machinery.
- **Service Enterprises:** The enterprises engaged in providing or rendering of services defined in terms of investment and are in equipment.

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

Manufacturing Sector	
Enterprises	Investment in Plant & Machinery
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	
Enterprises	Investment in Equipments
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.

## 3. Objectives of the study

The objectives of this paper are:

- To understand the definition of MSMEs.
- To discuss the role of MSMEs sector towards the contribution to GDP in the country.
- To assess the growth and performance of MSMEs in terms of employment and investments.
- To analyze the present policy framework of MSMEs.

To achieve these objectives, the paper is divided into various sections. Section I which is the present section, explains the definition of MSMEs. Section II explains the research methodology used in this paper. The next section shows the contribution made by MSMEs in the Indian economy during the past few years. Section IV assesses the performance of MSMEs with respect to total working hours, employment and investments in fixed assets. Section V presents the policy framework of MSME in the economy. References form the last section of the paper.

#### 4. Section II: Research methodology

The present study is based on secondary data and mostly collected from the Annual Reports published by the Ministry of Micro, Small and Medium Enterprises. The data is also collected from various articles and journals keeping in view the objectives of the study.

#### 5. Section III: Contribution of MSME in the Indian Economy

The micro, small and medium enterprise (MSME) sector is an important constituent of the Indian economy, contributing significantly to the Gross Domestic Product (GDP), manufacturing output, employment and exports. This sector also plays a decisive role in nurturing entrepreneurial talent as well as distributing wealth at grassroots level. This sector has contributed considerably in promoting balanced and equitable growth in the country. Performance of Micro, Small & Medium Enterprises (MSME) Sector in the country is evaluated mainly by conducting of periodic All India Census of the Sector. Since the Fourth All India Census of MSME was conducted in the year 2006-07, the estimates based on trends of Number of Working Enterprises, Employment, and Market value of Fixed Assets based on the Fourth All India Census of MSME is projected for latest years.

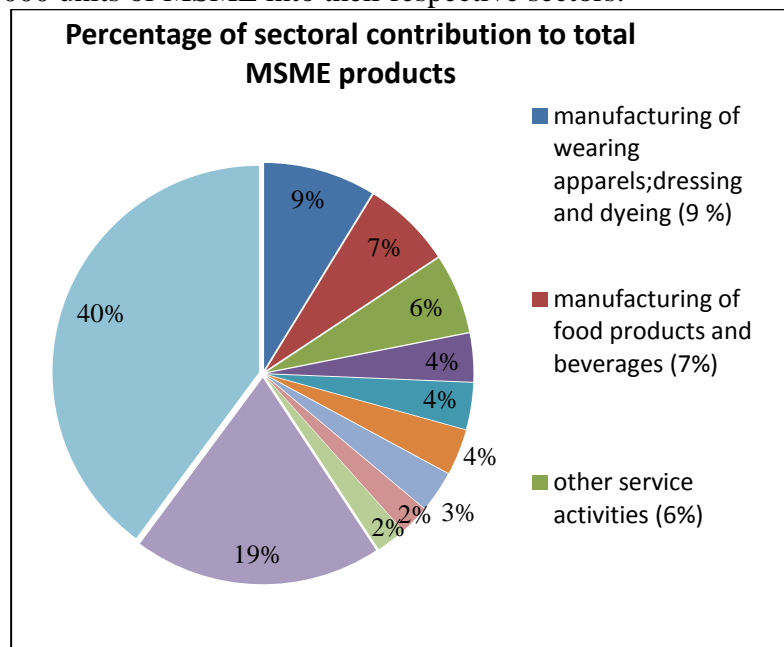
The comprehensive results of Fourth All India Census of MSME are given below:

#### 6. Summary Results: Fourth All India Census of MSME (Government of India)

Sr.	Characteristics	Registered Sector	Unregistered Sector	Economic Census-2005	Total
1	Size of 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%)
4	Total Employment (in Lakh)	93.09	408.84	303.31	805.24
5	Per Unit Employment	5.95	2.06	2.06	2.23
6	Total original value of Plant & Machinery (in Lakh)	10502461	9463960	-	19966421
7	Per unit original value of Plant & Machinery (in Lakh)	6.72	0.48	-	-
8	Total fixed investment (in Lakh)	44913840	24081646	-	68995486
9	Per Unit fixed investment (in Lakh)	28.72	1.21	-	-
10	Total Gross Output (in Lakh)	70751027	36970259	-	107721286

MSME have great role in the balanced development of the economy. MSME sector presently employs over 80 million people over 36 million units and MSME accounts for 8 percent of the country's GDP. As per the Annual report of Ministry of MSME, the sector accounts for about 45 percent of total export of the country. MSME sectors produce more than 6000 quality products. MSME sector, thus, shows greater opportunity for expansion and diversifying its activities in various sectors. MSMEs are dominated by micro enterprises with 94.9 percent share followed by small enterprises with 4.9 percent

of share. These enterprises are organized in throughout India by operating 55 percentages in rural India and rest operating in semi-urban and urban region of India. And hence MSMEs contribute a commendable portion to the balanced growth of Indian economy. On the activity basis, if we are exploring, it can be seen that 67.1 percent of total registered units are manufacturing units, 16.8 percent of total registered units are service units and 16.1 percent units of total registered units are repair and maintenance units. From the diagram given below we can get some clearer picture about the distribution of 6000 units of MSME into their respective sectors.



Source: Annual Report FY 15-16, Ministry of Micro, Small and Medium Enterprises, Govt. of India.

### 7. Contribution of MSME Sector in the Gross Domestic Product

The estimated contribution of MSME sector to GDP and Output, during 2006-07 to 2012-13 is shown in the table given below:

### 8. Contribution of MSME Sector in the Gross Domestic Product and Output

(At 2004-05 prices)

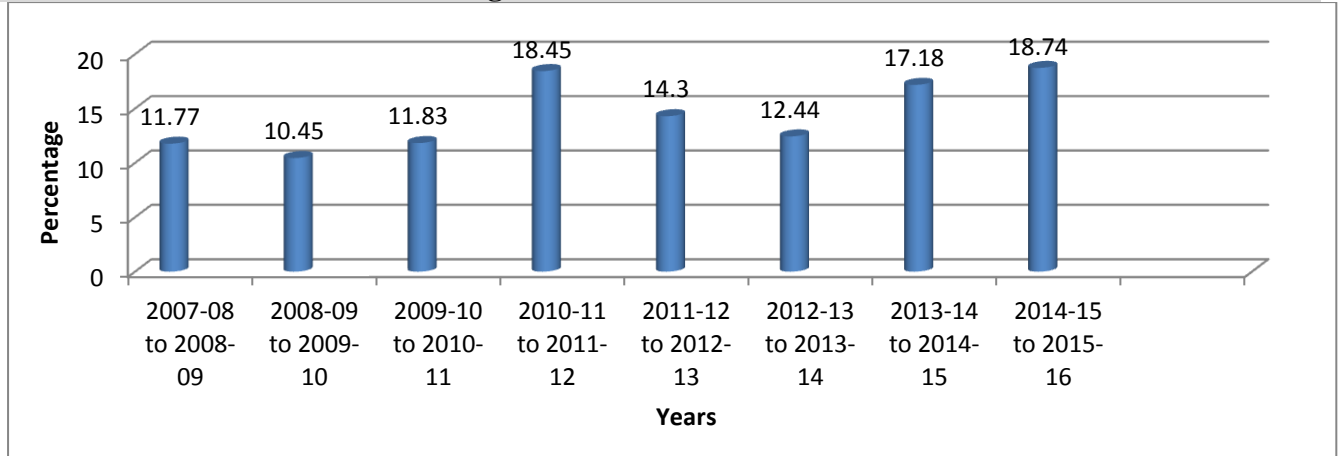
Year	Gross Value of Output of MSME Manufacturing Sector (in crore)	Share of MSME sector in total GDP (%)			Share of MSME Manufacturing output in total Manufacturing Output (%)
		Manufacturing Sector MSME	Services Sector MSME	Total	
2006-07	1198818	7.73	27.40	35.13	42.02
2007-08	1322777	7.81	27.60	35.41	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

Source: 1. Fourth All India Census of MSME 2006-07  
 2. National Account Statistics (2014), Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation (MoSPI)  
 3. Annual Survey of Industries, CSO, MoSPI.

MSME has shown stable growth rate around 11 percent every year till 2010-11. The highest growth in recent time was witnessed during 2011-12 (18.45 percent) whereas during year 2012-13 and 2013-14

growth rate was around 14 percent and 12 percent, respectively. But it jumped to 17 percent in 2014-15. However, recent data for 2015 shows impressive growth of 18.74 percent (year-on-year growth). This is shown in the diagram given below:

### 9. Annual Growth Rate in Preceding Years



Source: Annual Report FY 15-16, Ministry of Micro, Small and Medium Enterprises, Govt. of India.

### 10. Section IV: Performance of MSMEs

The estimated trends in regard to performance of MSME sector with respect to Total Working Enterprises, Employment, and Market Value of Fixed Assets, based on Fourth All India Census of MSME are as given below:

### 11. Performance of SSI/MSME, Employment and Investments

Sl. No.	Year	Total Working Enterprises (in lakh)	Employment (in lakh)	Market Value of Fixed Assets (in crore)
1	2006-07	361.76	805.23	868,543.79
2	2007-08#	377.36	842	920,459.84
3	2008-09#	393.7	880.84	977,114.72
4	2009-10#	410.8	921.79	1,038,546.08
5	2010-11#	428.73	965.15	1,105,934.09
6	2011-12#	447.64	1,011.69	1,182,757.64
7	2012-13#	467.54	1,061.40	1,268,763.67
8	2013-14#	488.46	1,114.29	1,363,700.54
9	2014-15#	510.57	1,171.32	1,471,912.94

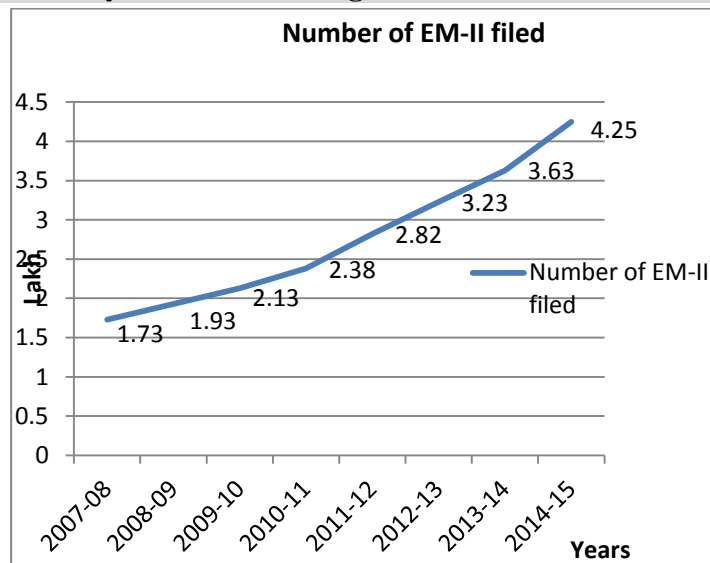
# - Projected

Source: Annual Report FY 15-16, Ministry of Micro, Small and Medium Enterprises, Govt. of India.

### 12. Trends in MSME growth (Filing of EM-II) during 2007-08 to 2014-15

Since the conduct of Fourth All India Census of MSME in 2006-07, the trends in MSME sector is assessed with the help of number of Entrepreneur Memorandum Part-II (EM-II) filed at DICs over the years. Since September 2015, the same has been replaced with Udyog Aadhaar online filing system. The information on number of EM-II filed by MSME at DICs was collected from the State/UT Commission rates/ Directorates of Industries to assess the trends in growth of MSME during 2007-08 to 2014-15 in the country MSME has shown consistent growth in terms of number of EM-II filed with the District Industries Centers across the country. In the year 2007-08, number of EM-II filed was 1.73 lakh which increased to 1.93, 2.13, 2.38, 2.82, 3.23, 3.63 and 4.25 lakh during 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 & 2014-15 respectively. This is shown in the graph given below:

### 13. Number of EM-II Filed By the Msme during 2007-08 to 2014-15



Source: Annual Report FY 15-16, Ministry of Micro, Small and Medium Enterprises, Govt. of India.

### 14. Section V: Present Policy Framework

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to enhance the competitiveness of the sector. The act also facilitates the development of these MSMEs enterprises. The Act provides the establishment of specific funds for the promotion and development as well as for enhancing the competitiveness of these enterprises. Other features of the Act include the notification of the schemes for the development, progressive credit policies and many more. The policy of de-reservation has helped the sector in enlarging in scale of operations and paved the way for the entry of the large enterprises in the manufacture of these products in keeping with the global standards. Credit/Finance-Credit to the MSEs is part of the Priority Sector Lending Policy of the banks. Any shortfall in lending by the foreign banks has to be deposited in the Small Enterprise Development Fund (SEDF) to set up by the Small Industries Development Bank of India (SIDBI). The SIDBI is the primary financial institution for the promotion, financing and development of the MSME sector. The Government has announced a 'Policy Package for Stepping up Credit to Small and Medium Enterprises' with the objective of doubling the flow of credit to this sector within a period of five years.

Competitive technology- in today's fast moving globalized business scenario, technology is playing a vital role than ever before. Government has set up ten state-of-the-art Tool rooms and training centers to foster the growth of MSME sector. The Tool rooms provide the well trained craftsmen in the area of tools and die making to the Indian industry. Skill Development-The Ministry of Micro, Small & Medium Enterprises promotes the development of micro and small enterprises in the country with the objective of creating self-employment opportunities and upgrading the relevant skills of existing and potential entrepreneurs. Export Promotion Export promotion from the MSE sector has been accorded a high priority. To help MSEs in exporting their products, the following facilities/incentives are provided: (i) Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government; (ii) To acquaint MSE exporters with latest packaging standards techniques, etc., training programme on packaging for exporters are organized in various parts of the country in association with the Indian Institute of Packaging.

### 15. Conclusion

India benefited immensely specially in field of technology from the experience of several countries. Some of the areas which provide ample of opportunities for cooperation in the MSMSE sector are:

- Establishment of turnkey projects for setting up manufacturing MSMEs on commercial terms.

- Providing turnkey assistance to set up tool rooms and training centers.
- Providing tailor made training courses for specific target groups.
- Assistance in product design, tool design and manufacturing of intricate tooling's.
- Product development and rapid prototyping services.

In nutshell we can conclude that Micro, Small and Medium Enterprises (MSMEs) have emerged as an engine of growth in Indian economy. They have emerged as a vibrant and dynamic component of the economy by virtue of their considerable contribution to GDP, industrial production and exports. However, the most significant contribution of this sector is towards employment generation which is second only to agriculture in India. The experiences of recent years show that employment in agriculture sector has been declining as well as large industries are also experiencing jobless growth. In such a situation, the main responsibility for job creation rests with unorganized sector including small and medium enterprises and the service sector. A technologically vibrant, internationally competitive small and medium industry should be encouraged to emerge, to make a sustainable contribution to national income, employment and exports. It is essential to take care of MSME sector to facilitate it to take care of the Indian economy.

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