

Growth of MSME in India and their Contribution in Employment and GDP of the Country

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ABSTRACT

The Micro, Small and Medium Enterprises (MSME) are credited with generating highest rate of employment growth, accounting for a major share of Gross Domestic Product (GDP) of a country. They also play a key role in development of economies with their effective, efficient, flexible and innovative spirit. Socio-economic policies adopted by the country have led stress on MSME. In this paper detailed analysis have been made to understand the growth of MSMEs and their contribution in the GDP and employment generation in the country.

1. Introduction

The Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The micro, small and medium enterprises sector contributes significantly to the manufacturing output, employment and exports of a country. The major advantage of the sector is its employment potential at low capital cost. The sector credited with generating the highest rates of employment growth and account for a major share of industrial production and exports.

In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. As per the fourth All-India Census of MSMEs (2006-2007), the MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country. MSMEs, which are spread across both urban and rural areas of the country, mostly form part of the unorganized sector. As per present estimates, the MSME sector including Khadi, Village and Coir industries, consist of 51 million units and provides employment to over 117 million persons. The sector contributes 7% to India's GDP while accounting for 45% of the total manufacturing output and 40% of the exports from India. India is the largest producer of coir in the world with a production of 5,42,000 MT, which comes to around 55% of global production of coir. Micro, Small and Medium Enterprises (MSME) sector is one of the still untapped high growth segments in India and an essential partner for achieving socio-economic growth.

In a first, Ministry of MSME has been awarded the ISO 9001-2008 certification. Implementation of ISO standards has enabled the Ministry to identify areas for improvement and also bring in transparency and accountability in its functioning. They constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth. With low investment requirements, operational flexibility and the capacity to develop appropriate indigenous technology, SMEs have the power to propel India to new heights. Hence, it seems like there is a silent revolution happening in India powered by MSMEs.

MSME redefined :- The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018 proposes to reclassify all MSMEs, whether they are manufacturing or service-providing enterprises, on the basis of their annual turnover. The bill was introduced in the Lok Sabha and further referred to the Standing Committee which tabled its report on 28 December 2018. As shown in the table below the definition of enterprises has been increased for all three categories doing away with the earlier differentiation between manufacturing and services MSME. The basis of identification has been changed from investment in plant & machinery/ equipment to total turnover and limits increased from Rupees 10-25 lakh to Rupees 5 crore for Micro enterprises, from Rupees 25 lakh - 5 crore to 5-75 crore for Small Enterprises and finally from 5-10 crore to Rupees 75-250 crore for medium enterprises.

Table 1 Classification of Enterprises as Micro, Small and Medium enterprises (in Rs)

Type of Enterprise	2006 Act		2018 Bill
	Manufacturing	Services	All Enterprises
	Investment in Plant & Machinery	Investment in Equipment	Annual turnover
Micro	23lakh	10 lakh	5 crore
Small	25 lakh-5 crore	10 lakh -2 crore	5-75 crore
Medium	5-10 crore	2-5 crore	75-250 crore

Source: MSME Annual Report 2018-19, Government of India

The new classification would eliminate the need for frequent inspections which was earlier required to check the investment in plant and machinery. It is expected to be a non-discriminatory, transparent and objective criterion.

2. Growth of MSME Sector

MSMEs are often said to grow faster than large firms. However, empirically it is observed that though they have high growth rates, as a group they also have a high death rate. In

other words, many firms in the segment do not last very long. This means that the total effect on the economy may not be much greater than that of relatively larger firms. The performance of the MSMEs at national level, which was evaluated in terms of parameters like number of units (both registered and unregistered), production, employment, and exports, helped to understand the role of MSMEs in economic development.

Table 2 Estimated number of enterprises in lakh for 2017-18

Activity	Estimated Number of Enterprises(in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.5	196.65	31
Trade	108.71	121.64	230.35	36
Other services	102	104.85	206.85	33
Electricity	0.03	0.01	0.03	0.01
All	324.88	309	324.88	309

Source: Annual Report by Govt. of India for MSME, 2018-19

The estimated number of enterprises are very huge in amount which is very clear with the above Table 2. In manufacturing sector it is nearly 196.65 lakh and in trade related activities it is 230.35 lakh, while it is 206.85 lakh in other services and merely 0.03 lakh in electricity related activity. The figure is more for urban areas for trade and other activities whereas it is more in rural areas for manufacturing and electricity related activities.

According to the Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation (MOSPI), the Share of MSME Gross Value Added (GVA) in total GVA during 2016-17 it was 31.8%. This data was provided by Shri Nitin Gadkari, Minister for Micro, Small and Medium Enterprises in a written reply in Rajya Sabha. (22 July 2019)

3. Factors which led to growth of MSMEs

Realising the potent role that MSMEs can play in the development of the economy the government has come up with many schemes and programmes to support and encourage the sector. Some of these are mentioned below:

- **Campaigns** like Skill India, Startup India, Digital India and Make in India aim to provide MSME players with a level playing field and a definitive push towards enhanced productivity.

- **Digitization:** Increasing internet penetration, customer’s familiarization with digital payments fuelled by B2C e-commerce players facilitate MSME sector growth.
- Tie-ups with new-age **non-banking finance (FinTech) companies** allowed access to timely collateral free finance to MSMEs.
- **Changing employment patterns:** Younger generation shifting from agriculture towards entrepreneurial activities creating job prospects for others.

The above mentioned programmes have helped create an atmosphere conducive to growth of such enterprises. But the fact remains that the firms in this sector need a lot of support to sustain themselves the long-run. This is an area where India still needs to work on.

4. IMPORTANCE of MSME sector for Indian Economy:

4.1 Contribution to employment:

MSME is the second largest employment generating sector after agriculture. It provides employment to around 120 million persons in India.

Table 3 Contribution of MSME in employment generation

Broad activity category	Employment(in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.07	0
All	497.78	612.1	1109.89	100

Source: Annual Report, Govt. of India, MSME, 2018-19

As per the table above, the most favourable contribution is in trade sector. The employment figures, at 35%, are also impressive. The figure shows the importance of MSME sector in generating employment and livelihood for the people of the country.

As per 73rd Round of National Sample Survey (NSS), conducted by the Ministry of Statistics & Programme Implementation during the period 2015-16, the estimated number of workers in unincorporated non-agriculture MSMEs in the country are 11.10 crore. Under the Prime Minister's Employment Generation Programme (PMEGP,) the estimated employment generated (number of persons) in micro enterprises during the years 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19 are 3.58 lakhs, 3.23 lakhs, 4.08 lakhs, 3.87 lakhs and 5.87 lakhs, respectively (PIB, 2019).

Table 4 Annual Reports of Ministry of MSME for the year 2011-12 to 2017

Year	MSME GVA	Growth %	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (%)
2011-12	2622574	-	8106946	32.35	8736329	30
2012-13	3020528	15.17	9202692	32.82	9944013	30.4
2013-14	3389922	12.23	10363153	32.71	11233522	30.2
2014-15	3704956	9.29	11504279	32.21	12467959	29.7
2015-16	4025595	8.65	12566646	32.03	13764037	29.2
2016-17	4405753	9.44	13841591	31.83	15253714	28.9

Source: Annual Report, MSME Report, Govt. of India, 2018-19

The above figures clearly shows that the contribution of MSME in GDP increased over time in absolute terms. Though the contribution of MSME sector as the percentage of GDP is decreased over the period of time even but the figure is still very high. A considerable percentage of GDP have been contributed by MSME units. GVA is also showing increasing figures. The growth percentage has been decreased over time and government has taken considerable steps to overcome the issues and have an increase in growth rate.

An average of 30% share of the Gross Domestic Product (GDP) of India is contributed by the MSMEs sector, and an average of 32% to the Gross Value Added (GVA) (Boateng et al, 2019)

4.3 Exports:

The MSME enterprises are also good foreign exchange earners for the country. The sector not only caters to domestic needs but also to the external market. It contributes around 45% of the overall exports from India (Kishore, 2016).

4.4 Some other benefits from MSME Sector

Apart from the tangible benefits mentioned above the MSME sector has an important role in the society. It is not only the engine of economic growth but also an integral part of the Social fabric by encouraging socio-economic inclusion, cohesion and fostering an innovative and scientific environment.

Inclusive growth: MSMEs promote inclusive growth by providing employment opportunities in rural areas especially to people belonging to weaker sections of the society (Kishore, 2016). For example: Khadi and Village industries require low per capita investment and employs a large number of women in rural areas.

The MSMEs sector is credited with generating about 40% of the total employment in the country. Out of these created employments, 55% are found in the urban cities whereas 45% emanates from the rural areas with 76% of them being male while 24% female. (Boateng, Nagaraju&Sodem, 2019).

4.2 Contribution to GDP:

With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities. MSME ministry has set a target to up its contribution to GDP to 50% by 2025 as India becomes a \$5 trillion economy.

Financial inclusion: Small industries and retail businesses in tier-II and tier-III cities create opportunities for people to use banking services and products.

Promote innovation: It provides opportunity for budding entrepreneurs to build creative products boosting business competition and fuels growth.

Thus, Indian MSME sector is the backbone of the national economic structure and acts as a bulwark for Indian economy, providing resilience to ward off global economic shocks and adversities.

5. Government schemes to promote MSMEs

The Government has launched a number of programmes for the MSME sector. Some of these are mentioned below:

- i. **UdyamiMitra Portal** : launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.
- ii. **MSME Sambandh** : To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.
- iii. **MSME Samadhaan**: MSME Delayed Payment Portal — will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.
- iv. **Digital MSME Scheme**: It involves usage of Cloud Computing where MSMEs use the internet to access common as well as tailor-made IT infrastructure
- v. **Prime Minister Employment Generation Programme**: It is a credit linked subsidy program under Ministry of MSME.

- vi. **Revamped Scheme of Fund for Regeneration Of Traditional Industries (SFURTI)**: It organizes traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.
- vii. **A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)**: creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution etc.
- viii. **National Manufacturing Competitiveness Programme (NMCP)**: to develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access.
- ix. **Micro & Small Enterprises Cluster Development Programme (MSE-CDP)**: adopts cluster development approach for enhancing the productivity and competitiveness as well as capacity building of MSEs.
- x. **Credit Linked Capital Subsidy Scheme (CLCSS)**: is operational for up-gradation of technology for MSMEs.

Other recent initiatives to promote MSMEs

In June 2019, **RBI committee** headed by former **SEBI Chairman UK Sinha** suggested a **Rs 5,000 crore stressed asset fund** for the MSME sector to provide relief to small businesses hurt by **demonetisation, GST**, and an ongoing **liquidity crisis**. It has also recommended doubling the **cap on collateral-free loans to Rs 20 lakh** from the current Rs 10 lakh extended to borrowers falling under the Mudra scheme, self-help groups, and MSMEs.

MSME Ministry announced in June 2019 to lift the ban on entry of **corporates and private players** in the MSME sector to pave way for the formation of **700 clusters** to reduce dependence on imports as well as for job creation. MSME Ministry is also planning to set up **enterprise facilitation centres** across the country to make smaller businesses more competitive and help them integrate with big enterprises.

Therefore, the government should continue to put concerted efforts for holistic development of MSMEs in key

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areas like **human capacity development, knowledge services, access to finance, technology, infrastructure, market access, and ease of doing business.**

6. Conclusion

Thus from the above discussion it can be concluded that MSME is one of the best alternative to increase the GDP as well as per capita income of India and its citizens. It can be done by increasing the access to credits for MSMEs. For example, government should consider improving the functionality of the Mudra Yojna. The average of sanctioned loans under Mudra Yojana comes at Rs 46,530 while that of disbursed amount is Rs 45,034 (Laghu Udyog Bharti, 2019). This meagre amount cannot be considered enough to launch a start up that can provide jobs to others. Mudra loans exceeding Rs 5 lakhs, that can generate employment, are mere 1.3 per cent under Mudra Yojana. If the sector is to be provided sustenance, the government needs to revamp its strategies.

Employees of MSMEs should be covered under Bima Yojna & PMEDY. Providing an insurance cover will not only provide the workers with a safety net but will also prove to be a great support in times of stress and need.

Use of Trade Platform by MSME sector and e-commerce portal linkages must be encouraged. Today most transactions are carried out digitally through online platforms. The MSME sector must be provided helping technical know-how to be able to exploit this resource profitably. Another strategy that must be simultaneously pursued is that the various skill-enhancement programmes of the government like PMEGP, PM Kaushal Vikas Yojna, Rural Employment Training etc should be reviewed and revamped as per market needs.

MSME is very important sector having great potential to develop a country to its optimum level. So particular attention must be paid to its development.