

The Assessment of Effect of Micro, Small and Medium Enterprises on Gross Domestic Production and Fixed Investment in India

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ABSTRACT

The present article deals with micro, small and medium enterprises and their role in economic growth related to production and fixed investment in the Indian context. These units registered consistent growth related to revenue of over 11 per cent in the years. The major findings of the research papers related to total contribution of MSMEs regarding production and fixed investments are includes six per cent in Gross Domestic Production, 33 per cent in manufacturing sector and 45 percent in exports and fixed investment in Small sector accounted the largest share (49 per cent) of the total fixed investment followed by micro sector (37 per cent) and medium sector (14 per cent). The paper also discusses the effect of MSMEs growth on Gross Domestic Production Growth, Employment Growth and Fixed Investment Growth.

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) are a key component in economic life, not only because of their number and variety but because of their involvement in every aspect of the economy, their contribution to regional development and the complementary role they play in support of the large sector. Small and medium enterprises could be termed as seed of industrial growth.

The contribution of micro and small enterprises (MSEs) are long recognized as important vehicles of economic diversification, income generation and distribution, and accelerating the economy of a country. They can also help to achieve a more equitable distribution of the benefits of economic growth (Aynadis and Mohammednur, 2014).

The MSMEs sector has already proved its mettle as a dominant player in most of the developed economies by giving a new dimension to their growth perspectives. It has helped in generation of large scale employment at lower capital cost, balanced regional development, generation of exportable surplus and in the establishment of a more flexible structure.

MSMEs contribute about eight per cent of the Gross Domestic Production (GDP) of the economy, about 45 per cent of manufacturing output and about 40 per cent of exports. MSMEs have been established in almost all major sectors in Indian industry such as Food Processing, Agricultural Inputs, Chemicals and Pharmaceuticals, Engineering, Electricals and Electro-Medical Equipment's (Shaikh, 2011).

2. Meaning and Definition of Micro, Small and Medium Enterprises (MSMEs)

According to MSME Development Act, 2006 Micro, Small and Medium Enterprises are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment's for enterprises providing or rendering services.

According to the Ministry of Micro, Small and Medium Enterprises, recent ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

For manufacturing sector, an enterprise is classified as:

- Micro enterprise, if investment in plant and machinery does not exceed Rs. 25 Lakhs.
- Small enterprise, if investment in plant and machinery is more than Rs. 25 Lakhs but does not exceed Rs. 5 Crore; or
- Medium enterprise, if investment in plant and machinery is more than Rs. 5 Crore but does not exceed Rs. 10 Crore;

In case enterprise is engaged in providing or rendering services, it is classified as:

- Micro enterprise, if investment in equipment does not exceed Rs. 10 Lakhs.
- Small enterprise, if investment in equipment is more than Rs. 10 Lakhs but does not exceed Rs. 2 Crore.
- Medium enterprise, if investment in equipment is more than Rs. 2 Crore but does not exceed Rs. 5 Crore.

According to Micro, Small and Medium Enterprises Amendment Bill, 2015, a recent ceiling on investment for enterprises to be as follows:

For manufacturing sector, an enterprise is classified as:

- Micro enterprise, if investment in plant and machinery does not exceed Rs. 50 Lakhs.
- Small enterprise, if investment in plant and machinery is more than Rs. 50 Lakhs but does not exceed Rs. 10 Crore; or
- Medium enterprise, if investment in plant and machinery is more than Rs. 10 Crore but does not exceed Rs. 30 Crore;

In case enterprise is engaged in providing or rendering services, it is classified as:

- Micro enterprise, if investment in equipment does not exceed Rs. 20 Lakhs.
- Small enterprise, if investment in equipment is more than Rs. 20 Lakhs but does not exceed Rs. 5 Crore.
- Medium enterprise, if investment in equipment is more than Rs. 5 Crore but does not exceed Rs. 15 Crore (Jain, 2017).

3. Literature Review

Shaik et al. (2017) conducted the study to measure the performance and government initiatives for the development of MSMEs in India. The collected data have been analysed with the help of tables and ratios. It was found that total working enterprises in MSMEs grown at Compound Annual Growth Rate (CAGR) 4.39 per cent from 2006-07 to 2013-14 and market value of fixed assets growth in CAGR stood at 6.65 per cent from 2006-07 to 2013-14.

Farajollahzadeh et al. (2016) examined the contribution of the MSMEs in terms of job creation, profit generation, overall production and capital formation in the country. Researchers have measured the trend of growth for MSMEs operating in India. The collected data have been analysed with the help of ratios, tables and graphs. It was found that the growth of MSMEs outcomes raised 8.69 per cent to 11.90 per cent in last 10 years (2004 to 2014). It was also found that MSMEs are making a vital contribution to the GDP of India, creating various job opportunities in this sector. Indian MSMEs has produced more than 6000 product including food or agriculture products, fabricated metal products, household products and wood products.

Garg (2015) conducted a study to measure the growth rate and the overall performance of the MSMEs working in the state of Punjab. Researcher has used the descriptive statistics to measure the performance of MSMEs using graphs and tables. It was stated that MSMEs mainly focus on producing export oriented goods, thus MSMEs helps in increasing the export volume of the country and increasing the foreign exchange reserves of the country. Hence, MSMEs plays an important role in the growth of the Indian economy. Research showed that 15 percent of total exports volume of MSMEs situated in Punjab have increased during 2008-09 to 2009-10. MSMEs are considered as the major growth driver of the economy of Punjab state. The total employment created by MSMEs of Punjab state was 45 percent of total employed population of Punjab.

Modi (2014) analyzed the contribution of Indian small scale industries. The research was based on the secondary data extracted from the annual reports of the small scale industry for 10 years. Researcher has used the described statistics which includes mean percentage method and frequency distribution method to analyze the performance of MSMEs of India. Researcher has presented the secondary data in the form of tables and graphs. It was found that there is growth of 5.2 percent in the total number of small scale industries in India during the period of 1998-2008. The study also revealed that there is an increase in the total production of small scale industries during the same period at a growth rate of 29.88 per cent.

Vasu and Jayachandra (2014) measured the role of MSMEs in the growth of the Gross Domestic Production (GDP) of the country. The study was based on the secondary data which was collected from the various sources such as; annual reports on MSMEs, published reports, government websites and the journal publications. Researchers have analyzed the data with the help of suitable tables. It was found that there was a growth rate of 13.56 percent in the number of MSMEs during the year 2006 to 2009 in allover India, while the growth

rate of MSMEs sector declined to 7.8 percent in next five years due to various fluctuations in the macro environment. Total production of the MSMEs got increased by 25 percent during same period.

Dastane (2012) examined the growth and performance of MSMEs in India. Researcher has taken three parameters to measure the growth of the MSMEs namely; number of people employed, total production value and percentage of GNP. Researcher has collected this data from economic survey report and the Indian economy statistics report. Researcher showed that MSMEs have significantly grown in term of units and also contributed to the GNP of the country significantly. Total percentage of MSMEs operating in India is mainly; 0.17 percent is of medium enterprises, 4.89 percent of the small enterprises and 94.94 percent micro enterprises. MSMEs working in India can be categorized as manufacturing industries and services industries. 67 percent of the total MSMEs are in manufacturing sector while 33 percent of the total MSMEs are in service sector. Further, the study revealed 45 percent of the MSMEs are situated in the rural areas of the country while 55 percent of the MSMEs are operating in urban areas.

4. Objectives of the Paper

- ❖ To examine contribution of Micro, Small and Medium Enterprises in India with reference to Gross Domestic Production (GDP) and Fixed Investment.
- ❖ To measure the effect of MSMEs Growth on Gross Domestic Production Growth and Fixed Investment Growth.

5. Analysing The Contribution of MSMEs Regarding Gross Domestic Production and Fixed Investment Growth in India

According to table-1 total working enterprises in MSMEs grown at Compound Annual Growth Rate (as mentioned in chapter-3) 4.39 per cent from 2006-07 to 2014-15. Total estimated registered working enterprises were 3.6 Crore to 5.1 Crore from 2006 to 2015, distributed 55 per cent in urban areas and 45 per cent in rural areas. Out of the total working enterprises micro sector includes 95.05 per cent, small sector includes 4.74 per cent and medium sector includes 0.21 per cent so micro sector dominated MSMEs sector in terms of working enterprises.

Production growth in CAGR 9.62 per cent from 2006-07 to 2014-15, there is constant growth in MSMEs production. The total contribution of MSMEs regarding production includes six per cent in Gross Domestic Production, 33 per cent in manufacturing sector and 45 percent in exports. Registered micro and small sector has a similar share in total production with 44 per cent and 45 per cent.

Market value of fixed assets growth in CAGR stands at 6.83 per cent from 2006-07 to 2014-15; market value also increased over a period of time. Fixed investment in Small sector accounted the largest share (49 per cent) of the total fixed investment followed by micro sector (37 per cent) and medium sector (14 per cent).

Table 1: Contribution of MSMEs in India (In Crores)

Year	Total Working MSME	Production (Rs.)	Fixed Investment (Rs.)
2006-07	3.62	13,51,383	8,68,544
2007-08	3.78 (4.3)	14,35,180 (6.2)	9,20,460 (6.0)
2008-09	3.94 (4.3)	15,24,235 (6.2)	9,77,115 (6.2)
2009-10	4.11 (4.3)	16,19,356(6.2)	10,38,546(6.3)
2010-11	4.29 (4.4)	17,21,553(6.3)	11,05,934(6.5)
2011-12	4.48 (4.4)	21,67,110(25.9)	11,82,758(7.0)
2012-13	4.68 (4.4)	23,85,248(10.1)	12,68,764(7.3)
2013-14	4.89 (4.5)	26,53,329(11.2)	13,63,700(7.4)
2014-15	5.11 (4.5)	27,83,433(4.9)	14,71,913(7.9)

(Sources: Annual Report of MSME, 2015-16)
(Figures in parenthesis denote percentage.)

5.1 Analysing the effect of MSME’s growth on gross domestic production growth

Researcher has measured the effect of growth of MSMEs on the Gross Domestic Production growth in the country. Simple regression model has been used by the researcher to measure the cause and effect relationship between MSMEs’ growth and Gross Domestic Production growth. Growth in

number of MSMEs has been taken as independent variable and growth in Gross Domestic Production has been taken as dependent variable. Results of the regression have been given below in table 2:

H01: Growth of MSMEs has no significant effect on the Gross Domestic Production growth.

Table 2: Effect of Growth of MSMEs on Gross Domestic Production Growth

R = 0.641, R Square = 0.410					
F-value = 69.830, p-value = 0.000					
Regression	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-9.501	6.836		-1.416	.191
Growth of MSME	.478	.078	.341	8.356	.000

(Source: Secondary Data)

Interpretation: It can be interpreted from the table 2 that value of R square is 0.410, which indicates that 41 percent of the variation in the value of dependent variable is caused by independent variable and only 59 percent of variation in the value of dependent variable is caused by other chance factors. It was also found from the table that f-value is 69.830 at a p-value of 0.000 which shows that a significant model has emerged from the regression model. Null hypothesis (H02) which states that there is no relationship between growth of MSMEs and Production may be rejected and it can be said that growth of MSMEs has a statistically significant effect on the growth of Production. Further, it was clear from the table that the value of regression coefficients is 0.478 which is positive and significant at one percent level of significance. Thus, overall it can be said that there is significant effect of growth of MSMEs on the growth of Gross Domestic Production.

5.2 Analysing the effect of MSME’s growth on fixed investment growth

Researcher has measured the effect of growth of MSMEs on the Fixed Investment growth in the country. Simple regression model has been used by the researcher to measure the cause and effect relationship between MSMEs’ growth and Fixed Investment growth. Growth in number of MSMEs has been taken as independent variable and growth in Fixed Investment has been taken as dependent variable. Results of the regression have been given below in table 3:

H02: Growth of MSMEs has no significant effect on the Fixed Investment growth.

Table 3: Effect of Growth of MSMEs on Fixed Investment Growth

R = 0.798, R Square = 0.636					
F-value = 855.602, p-value = 0.000					
Regression	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-27.049	4.162		-5.327	.000
Growth of MSME	0.603	.312	.495	29.251	.000

(Source: Secondary Data)

Interpretation: It can be interpreted from the table 3 that value of R square is 0.636, which indicates that 63 percent of the variation in the value of dependent variable is caused by independent variable and only 37 percent of variation in the value of dependent variable is caused by other chance factors. It was also found from the table 4 that f-value is 855.602 at a p-value of 0.000 which shows that a significant model has emerged from the regression model. Null hypothesis (H03) which states that there is no relationship between growth of MSMEs and Fixed Investment may be rejected and it can be said that growth of MSMEs has a statistically significant impact

on the growth of Fixed Investment. Further, it was clear from the table that the value of regression coefficients is 0.603 which is positive and significant at one percent level of significance. Thus, overall it can be said that there is significant effect of growth of MSMEs on growth of Fixed Investment.

Overall, it can be said that growth of Micro, Small and Medium Enterprises (MSMEs) has a positive and significant relationship with the fixed investment and the growth in production. Growth of MSMEs has a positive effect on the growth of gross domestic production and fixed investment growth.

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