

Role of Micro, Small and Medium Size Enterprises in Employment Generation and Their Contribution in the Indian Economy

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Abstract: Micro, Small and Medium size Enterprises have been playing very important role in the Indian Economy. The study seeks to observe the growth of Micro, Small and Medium size Enterprises (MSME) in the Indian economy and their percentage of contribution to GDP of our national economy & the role of this sector in creation of employment. For this study, data have been collected from secondary sources and simple statistical tables, charts have been used. The results show that during the study period, i.e. from the year 2006-07 to 2013-14, total number of MSME has been increasing. As a result more and more employment have been generated during the same period and contribution of MSME sector in total GDP of Indian economy has also been increasing steadily during the study period.

Keywords: Small and Medium size Enterprises (MSME), Generation of employment, Contribution to GDP, Indian economy.

INTRODUCTION

A major global re-structuring is underway in the manufacturing as well as services sector.

This has taken the form of re-location of manufacturing, design, and service activities to places where cost reduction can be affected without compromising reliability. Such activities are generally undertaken by small and medium enterprises (SMEs) which comprise the bulk of any nation's economic units and contribute significantly to employment. In some newly industrialized Asian countries, SMEs have evolved into major global players and conglomerates through this activity, offering complete end-to-end services in the supply chain, whether as manufacturers of piece parts and systems, or providers of electronic services. Industrial economies of the 21st century have short product lifecycles; production is flexible and lean, with focus on the entire value chain and not just on internal processes. Key drivers of growth now are people, innovation and capabilities and not just capital. In the 1980s-90s, it was shown that manufacturing

could be undertaken anywhere; now designing can also be done anywhere. These activities are ideally suited for SMEs if they can become partners in an internationally accepted supply chain. This is the peril, but this is also the promise of the present globalization.

In accordance with the provision of Micro, Small & Medium Enterprises (MSME) Act, 2006 the Micro, Small and Medium Enterprises are classified in two classes a) 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) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. b) Service Enterprises – The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. The limit for investment in plant and machinery/equipment for manufacturing/service enterprises are shown in the following tables.

Manufacturing Sector

Enterprises	Investment in Plant & Machinery
Micro Enterprises	Do 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	Do 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

REVIEW OF LITERATURE

- Kour [1] studied on the topic “SMEs and Their Significance in India” to understand the concept of SMEs, their formation and significance in the Indian economy. The author concluded that it is important to take care of the sector like support for technological up-gradation, development of infrastructure, financing etc. to enable the sector to contribute towards growth in the Indian economy.
- Savlovschi and Robu [2] examined on the topic “The Role of SMEs in Modern Economy” and concluded that small and medium enterprises are worldwide acknowledged for their unique contribution to the economic development of both developing and developed countries. It is surprising that political strategies have often thought that the SMEs can become the ‘seed’ of economic revival.
- Venkatesh and Muthiah [3] researched on the topic “SMEs in India: Importance and Contribution” and concluded that SMEs has achieved steady growth over the last couple of years. The role of SMEs in the industrial sector is growing rapidly and they have become a thrust area for future growth but government support is highly essential for this sector to economic well being of the nation.
- Uma [4] investigated on the topic “Role of SMEs in Economic Development of India” to find out the significance of SMEs in economic development in India and concluded that this sector is only the way of solution to the problems of poverty, insecurity, unemployment and over population in different countries of the world.
- Gujrati [5] studied on the topic “The Role of SMEs in the Economic Development” to observe the role of SMEs in economic development and scrutinizes the contributions of entrepreneurship in the economic development through SMEs and concluded that the global economy is divided into three stages – the factor-driven stage, the efficiency-driven stage, and the innovation-driven stage and that in order to understand entrepreneurship in all three stages, entrepreneurship data need to be reflect the stages of development.
- Oba and Onuoha [6] studied on the topic “The Role of Small and Medium Scale Enterprises in Poverty Reduction in Nigeria” for the period 2001-2011 to examine the role of SMEs for employment activities and poverty reduction. The authors concluded that SMEs are the main engine of economic growth, employment and poverty reduction of Nigeria and suggested to Policy maker and Government & their agencies to provide the technical, technological, financial, managerial assistance and infrastructure for the SMEs.
- Ben-Caleb and his group [7] investigated on the topic “Empowering Small and Medium Scale Enterprises in Nigeria: A Key Poverty Alleviation Strategy” and finds that the major problems plaguing SMEs are inadequate capital, poor infrastructural facilities, finance problems and lack of management & skill support.
- Bandeiah and Venkateswarlu [8] examined on the topic “Role of Micro, Small and Medium Enterprises in Indian Economic Development” and concluded that MSME are the backbone of modern Indian economy. With the advent of planned economy in 1951 and the subsequent industrial policy of the Government of India, both planners and the Government have earmarked for small and medium industries a special role in the economy.
- Ngui and Kanta [9] analyzed on the topic “The Role of SMEs in Employment Creation and Economic Growth in Selected Countries” and concluded that a small industry can be set up with small capital, and can produce goods for domestic consumption by using labour intensive technology. SMEs have been playing a significant role in the development and growth of various countries by providing employment. SMEs are vital for world prosperity. Success of SME sector will help the country to achieve vision 2030 and face a competitive, dynamic and challenging global environment.
- Ali and group [10] investigated on the topic “The Role of Small and Medium Enterprises and Poverty in Pakistan: An Empirical Analysis” by using Annual time series data and examines the impact of SMEs on poverty in Pakistan for the period 1972-2007. Log-linear autoregressive model has been

estimated by Ordinary Least Squere (OLS) method using one year previous value of HCR as explanatory variable. The authors concluded that small scale enterprises can play very important role in the economic growth, employment generation and poverty alleviation in Pakistan.

Research Gap

None of the studies have been made showing importance of small and medium size enterprises in creation of employment and contribution of SMEs in the Indian economic growth and so the present study has been undertaken.

Objectives of the Study

- To study the growth of MSMEs in India;
- To observe the performance of MSMEs in creation of employment in India;
- To show the contribution of MSMEs in India's GDP growth rate.

Historical Background and scenario of SMEs in the Indian economy

After independence from 1948 to 1991 micro and small enterprises was given recognition to the Indian economy. The Micro, Small and Medium Enterprises Development organization (Earlier known as Small Industries Development Organization) was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coin Board were also set up. MSME – Development Industries were also set up all over India to train youth in skill and to be a successful entrepreneur. The SIDBI is the principal financial institution for promotion, financing and development of MSE sector. At the state level State Financial Corporation's (SFCs) & Small Industries Development Corporation (SIDC) are the main sources of long term finance for the MSE sector.

The new Policy for Small, Tiny and Village Enterprises of August, 1991 laid the framework for government support in the context of liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centers were set up for quality certification and new Tool Rooms as well as Sub-contracting Exchanges were established. The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries. The Ministry of MSME [Earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector. The new Policy Package announced in August, 2000 sought to address the persisting problems relating to credit, infrastructure, technology, and marketing more effectively. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness. In 2008 Limited Liability Partnership (LLP) Act was passed which is expected to provide a thrust to the MSMEs in their move towards corporatization.

METHODOLOGY OF THE STUDY

The data have been collected from the Annual Report of Ministry of Micro, Small and Medium Enterprises, Government of India. So the data are secondary in nature and the time period is taken from the year 2006-07 to 2013-14 for this analysis. The data so collected from the said source presented in a tabular form and analyzed by making Charts-

Table-1: Performance of MSME in creation of employment

Sl. No.	Year	Total working enterprises (In lakh)	Employment (In lakh)
1	2006-07	361.76	805.23
2	2007-08#	377.36	842.00
3	2008-09#	393.70	880.84
4	2009-10#	410.80	921.79
5	2010-11#	428.73	965.15
6	2011-12#	447.64	1011.69
7	2012-13#	447.54	1061.40
8	2013-14#	488.46	1114.29

indicates projected

Source: Annual Report of MSME 2014-15, Government of India, Ministry of Micro, Small and Medium Enterprises.

Table-2: State/UT wise distribution of estimated number of enterprises and employment

Sl No.	State/UT	Enterprises (In lakh)	Employment (In lakh)
1.	Jammu Kashmir	1.33	3.07
2.	Himachal Pradesh	1.72	2.92
3.	Punjab	10.14	18.31
4.	Chandigarh	0.29	0.70
5.	Uttarakhand	2.23	4.42
6.	Haryana	5.20	12.23
7.	Delhi	1.78	6.52
8.	Rajasthan	9.68	18.42
9.	Uttar Pradesh	24.21	59.30
10.	Bihar	7.98	17.45
11.	Sikkim	0.07	0.57
12.	Arunachal Pradesh	0.25	0.88
13.	Nagaland	0.18	1.17
14.	Manipur	0.49	1.58
15.	Mizoram	0.13	0.56
16.	Tripura	0.28	0.76
17.	Meghalaya	0.50	1.17
18.	Assam	2.34	6.58
19.	West Bengal	21.23	58.53
20.	Jharkhand	4.43	8.99
21.	Odisha	9.97	23.67
22.	Chattisgarh	3.01	5.43
23.	Madhya Pradesh	12.57	20.30
24.	Gujarat	15.32	34.42
25.	Daman & Diu	0.02	0.28
26.	Dadra & Nagar Haveli	0.06	0.34
27.	Maharashtra	15.32	35.61
28.	Andhra Pradesh	15.36	38.98
29.	Karnataka	12.49	30.48
30.	Goa	0.59	1.20
31.	Lakshadweep	0.01	0.05
32.	Kerala	14.44	33.20
33.	Tamil Nadu	20.55	53.16
34.	Puducherry	0.14	0.46
35.	Andaman & Nikabar Island	0.07	0.23
	All India	214.38	501.93

Source: Annual Report of MSME 2014-15, Government of India, Ministry of Micro, Small and Medium Enterprises.

Table-3: Contribution of MSME Sector in GDP (At 2004-05 prices)

Year	Gross value of output of MSME Manufacturing Sector (Rs. In crore)	Share of MSME Sector in total GDP (%)			Share of MSME Manufacturing output in total Manufacturing output (%)
		Manufacturing Sector of MSME	Service Sector of 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: Annual Report of MSME 2014-15, Government of India, Ministry of Micro, Small and Medium Enterprises.

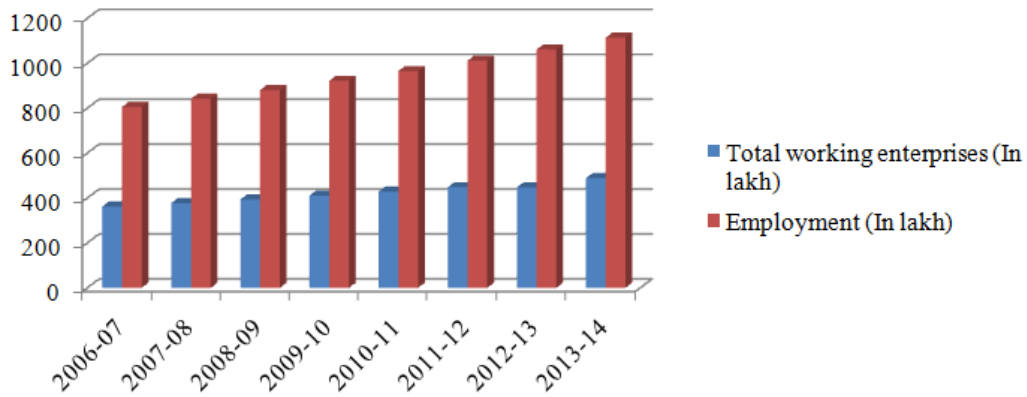


Fig-1: Showing total working enterprises and employment creation in India

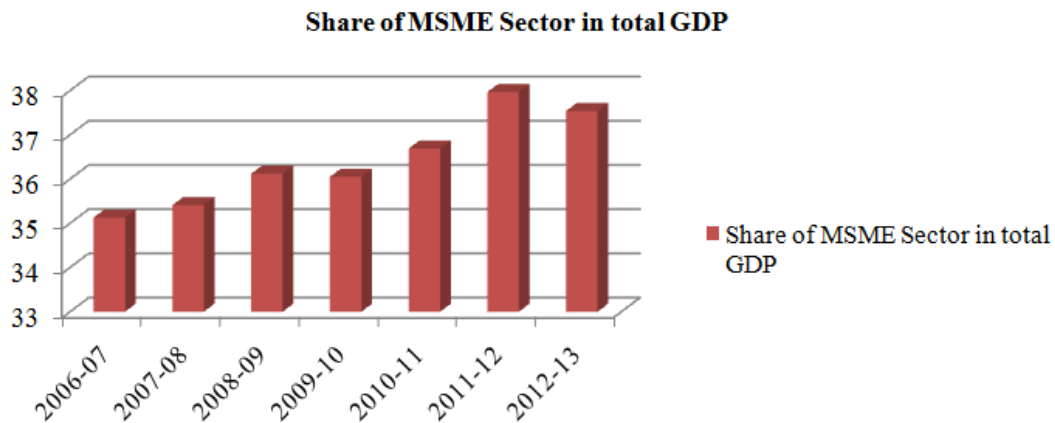


Fig-2: Showing contribution of MSME in total GDP of India

Analysis and Interpretation

From Table-1 it is seen that from the 2006-07 to 2013-14 total number of enterprises have been increasing from year after years and as a result number employment during the time period has also been increasing steadily. This is also clearly shown by Figure 1. From Table -2 it is seen that Micro, Small and Medium size enterprises are widely spread in all states and Union Territories of India, though the number of MSME situated in some States are very low. If we observe Table C we can see that the Gross value of output of MSME Manufacturing Sector has been increasing at a steady rate from the year 2006-07 to 2012-13. But share (%) of MSMEs Manufacturing output in total Manufacturing output of our country has been decreasing steadily in the same period. On the other hand total share of MSME sector in total GDP has been increased to 37.54 percentages in the year 2012-13 from 35.13 percentage of the year 2006-07 (Table C), which is also shown clearly in Figure 2. Out of total GDP contribution of MSME only the contribution of GDP in respect of Service Sector of MSME has been increasing steadily from the year after years during 2006-07 to 2012-13. But share of contribution of manufacturing sector in total GDP contribution of MSME has been decreasing steadily during the same

period (Table 3). So, manufacturing sector of MSME is required to be boost up.

Concluding Remarks

From the above observation it is seen that the share of MSME Sector in total GDP of country has been increasing year after years during the study period due to the increase of contribution of MSME Service sector. Due to increasing trends of total number of Micro, Small and Medium size Enterprises in India employment generation capacity has also been increasing at a higher rate. So, it can be concluded that in developing countries like India MSME sector has been playing a vital role in creation of employment and its contribution to our national growth is also considerable.

Scope for further Research

There are obviously further research scopes, like what are the challenges faced by micro, small and medium size enterprises in the era of globalization and remedy for the same may be the topic of further research.

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