



THE ROLE MSMES IN PROPELLING ECONOMIC DEVELOPMENT OF INDIA

Dr. N. M. Makandar

**Associate Professor of Commerce, Anjuman Arts, Science, Commerce,
College & PG Studies Dharwad.**

ABSTRACT

The MSMEs play a very important role in the growth and development of the economy with their effective, efficient, flexible and modern & innovative entrepreneurial spirit. The sector contributes maximum to the overall industrial Production, Employment, and Export & Countries GDP. It is well known that the MSME sector constitutes the spine of the nation, small Industry has been one of the major pillars of India's economic development strategy since Independence. It is recognized fact that agriculture alone is not capable of meeting the challenges of unemployment and poverty reduction of our country. As such a planned and regulated development of industries is must for the growth of our nation. It is well known that the MSME sector constitutes the spine of the nation, small Industry has been one of the major pillars of India's economic development strategy since Independence. The present paper is an attempt to analyze the role of MSMSE in Indian economy.



KEYWORDS : MSMEs, India, globalisation, entrepreneurship, unemployment, exports and imports.

INTRODUCTION

Micro, Small and medium Enterprise (MSMEs) sector has emerged as a highly vibrant, dynamic and leading sector in the Indian economy. The MSMEs play a very important role in the growth and development of the economy with their effective, efficient, flexible and modern & innovative entrepreneurial spirit. The sector contributes maximum to the overall industrial Production, Employment, and Export & Countries GDP. These industries are high capital labour ratio and require a minimum gestation period. It is observed that this sector is large contributor to the socio-economic development of the country and recognized as an important pillar of Indian economy. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries. Micro, Small and Medium Enterprises (MSME) contribute nearly 22 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. They provide the largest share of employment after agriculture. They are widely dispersed across the country and produce a diverse range of products and services to meet the needs of the local markets, the global market and the national and international value chains. The major advantage of the sector is its employment potential at low capital cost. It is well known that the MSME sector constitutes the spine of the nation, small Industry has been one of the major pillars of India's economic development strategy since Independence. It is recognized fact that agriculture alone is not capable of meeting the challenges

of unemployment and poverty reduction of our country. As such a planned and regulated development of industries is must for the growth of our nation.

MEANING:

MSMEs are defined on the basis of their investment in plant and Machinery in case of manufacturing enterprise and on the basis of equipment in case of service sector. The present ceilings on investment for the enterprises to be classified as micro, small and medium enterprise are as given in the below table

Classification of MSMEs

Classification	Manufacturing Enterprise	Service Enterprise
Micro	Rs. 25 Lakh	Rs. 10 lakh
Small	Rs. 5 Crore	Rs. 2 Crore
Medium	Rs.100 Crore	Rs. 5 Crore

Source: MSMEs at a Glance, 2017

SIGNIFICANCE OF THE STUDY:

Micro, Small and Medium-sized Enterprises (MSME) are one among the most important sectors, forming the backbone of the Indian economy. This sector has been instrumental in the growth of the nation, leveraging exports, creating huge employment opportunities for the unskilled, fresh graduates, and the underemployed, also extending the opportunities to banks for giving more credit to enterprises in this sector. The government should take utmost care of this sector in terms of providing more and more MSME Registration benefits through better regulations, Government simply, and enabling financial institutions to lend more credit at less interest rate for sustainability of this sector.

MSMEs is considered as vibrant and active sector in Indian economy as compared to large scale enterprise. While it contributes about 45% to manufacturing sector, and perhaps 40% to Exports, it forms the highest share of Employment sector in India, contributing around 69% to it. Since the enterprises falling in this sector require low capital to start the business, it creates huge employment opportunities for many unemployed youth. India produces about 1.2 million graduates per year, of the total number about 0.8 million are engineers. And, there is no economy in the world that can provide jobs to so many fresh graduates in one year. MSME is the boon for many of these fresh manpower.

OBJECTIVE OF THE STUDY:

The main objective of the paper is to evaluate the overall growth and developments in the MSMEs sectors in India. Following are the specific objectives of this paper

1. To analyze the growth of MSMEs in Indian context.
2. To analyze the performance of MSMEs in present scenario.
3. To know the contribution of MSMEs in GDP contribution.
4. To critical examine the opportunities of employment created by the MSMEs.
5. To ascertain the Balanced Regional Development.

DATABASE & RESEARCH METHODOLOGY:

The study is based in secondary data. All financial data are compiled from MSMEs Annual report, Government of India. Ministry of MSME, Government of India, Centre for Monitoring Indian Economy, Reserve Bank of India, World Investment Report and World Investment Report. RBI bulletin, online data base of Indian Economy, journals, articles, newspapers, etc. are also referred for compilation of this paper.

REVIEW OF LITERATURE:

A comprehensive review of literature has become an essential part of any investigation has it not only gives an idea about the work done in the past and assists in delineation of the problem area but

also provides basics for interpretation of findings. An attempt is made along the following lines to review some of such studies. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target. Garg Ishu and Walia Suraj. (2012) confirms that the significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to gross domestic product (GDP), employment and exports in Indian economy using the OLS technique. Annual Report of MSME 2012-2013, gives the overall view of MSMEs with respect to its performance and growth in production, employment, export, and number of industries, detail view of various schemes and of various departments of MSMEs.

ANALYSIS OF DATA:

Following parameters have been identified to assess the role of MSME in propelling economic development of India

1. MSME'S Growth in India
2. MSMEs Contribution in GDP
3. Estimated Number of MSMEs (Activity Wise)
4. Distribution of Enterprises Category Wise
5. Estimated Employment in MSME Sector (Broad Activity Category Wise)
6. Share of MSME exports in total exports

MSME'S GROWTH IN INDIA & CONTRIBUTION IN GDP:

Micro, Small & Medium Enterprises (MSMEs) contribute significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. Government is committed to supporting this critically important sector for better credit flow, technology upgradation, ease of doing business and market access. MSMEs operation and growth have been persistently challenged by numerous internal and external factors, even a significant number of MSEs in different parts of the country have collapsed and goes out of operation. This research, therefore, aims to identify those internal (firm-specific) and external (macroeconomic) factors affecting the growth of MSEs in Bole Sub City of Addis Ababa City administration.

Table-1
Growth of MSMEs (Figures in lakh)

Parameters	NSS 73 rd Round 2015-16	Fourth All India census of MSMEs 2006-07	Annual Compound Growth Rate(5)
No. of MSMEs (Total)	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
Employment (Total	1109.89	805.24	3.63
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

Source: Annual Report MSME 2018-19. Page.35

The Micro, Small and Medium enterprises (MSMEs) play a pivotal role in the overall industrial economy of India. MSMEs constitute more than 80% of the total number of industrial enterprises and support industrial development. MSMEs contribute nearly 45% to manufacturing and about 40% to the Indian export sector. Their contribution to the Indian GDP is 8% and the sector has registered growth rate of 10.8%. Indian MSMEs have moved up from the manufacture of traditional goods including leather, gems and jewelry, agricultural goods to much more value addition in the manufacturing sector

to its entry in the value added services as well. It is one of the major growth driver of Indian Economy. It is based on the Model of Socio economic policies of the Govt. of India. It develops appropriate indigenous technology. It possess the second largest sector after agriculture. It includes more than 26 million units which are producing more than 8000 products within the country. It provides employment to over 59 million.

CONTRIBUTION OF MSMEs IN INDIAN ECONOMY:

(Annual Report, Micro, Small and Medium Enterprises, (2017–18), Government of India)

The Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) growth for 12th 5 year Plan (2012–17), unveils that the sector accounts for 45% of the manufacturing output and 40% of the total exports of the country. Further the Ministry of MSME's (2017), highlights that the MSMEs accounted for 30.74% of GDP in the year 2014–15. Current economic forecast or survey interprets that with the Indian Economy growing at an average of 7% per annum, it is likely to become a \$5 trillion economy by the year 2025. Hence, the development of the MSME sector is becomes essential as it is considered to be the backbone of India. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. The contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices for the last five years is as below:

Table -2
Contribution of MSMEs in Country's Economy at Current Price
(Figures in Rs. Crores adjusted for FISIM3 at current prices)

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	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

Source: Annual Report MSME 2018-19. Page.27

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office (NSSO), MoSPI, during the period 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic activities excluding the MSMEs registered under (a) Sections 2m(i) and 2m(ii) of the Factories Act, 1948, (b) Companies Act, 1956 and (c) Construction activities falling under Section F of National Industrial Classification (NIC) 2008. The below table shows the distribution of MSMEs category wise.

Table-3
Estimated Number of MSMEs (Activity Wise)

Activity category	Estimated Number of Enterprises (in Lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity	0.03	0.01	0.03	00
All	324.88	309.00	633.88	100

Source: Annual Report MSME 2018-19. Page.28

It is seen from the above table that 31% MSMEs were found to be engaged in manufacturing activities, while 36% were in Trade and 33% in Other Services. Again out of 633.88 estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) were in rural area and 309 lakh MSMEs (48.75%) were in the urban areas.

Table -4
Distribution of Enterprises Category Wise (Numbers in lakh)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.09	0.78	0..01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

Source: Annual Report MSME 2018-19. Page.29

EMPLOYMENT:

MSMEs provide employment opportunities at comparatively lower capital cost and act as ancillary units for large enterprises to support the system in growth. As per the National Sample Survey (NSS) 73rd round conducted during the period 2015- 16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.22 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country. The below table shows the distribution of MSMEs activity wise.

Table -5
Estimated Employment in MSME Sector (Broad Activity Category Wise)

Broad Activity Category	Employment			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.41	35
Other Services	150.53	211.69	362.22	33
Electricity	0.06	0.02	0.07	00
All	497.78	612.10	1109.89	100

Annual Report MSME 2018-19

MSME Export to Total Exports:

The MSME sector in India is contributing more than 40% to exports. The below table below that the share of MSME exports has increased from 43% in 2012-13 to 49% in 2017-18. MSME exports grew by 4.19% in 2014-15, which declined to -5.85 % in 2015-16. During the same period total exports also declined from -1.29% to -15.49%. During 2016-17 and 2017-18 there was positive growth in case of both MSME exports and total exports.

Table-6
Share of MSME exports in total exports (Amount in USD Million)

Year	Total Exports	Export by MSMEs	Share of MSMEs(%)
2012-13	300400	127992	43
2013-14	314415	133313	42
2014-15	310352	138896	45
2015-16	262291	130768	50
2016-17	275852	137068	50
2017-18	303376	147390	49

Source: RBIs Report of the Expert Committee on MSMEs 2019

Major Announcements for Startups and MSMEs:

Budget 2020 has announced several measures which would impact the Startups and MSMEs:

- The Govt has launched a Digital Platform for the protection of Intellectual Property Rights which shall facilitate seamless applications.
- A subordinate debt scheme has been introduced for MSME which would be counted as quasi-equity.
- Eligible for registering as a Startup the earlier criteria of turnover of Rs.25 Crore has been increased to Rs.100 Crore.
- The tax exemption benefit that was given to the Startups for a period of 3 years in a block of 7 years has been increased to 10 years which means that a Startup can now avail tax benefits for a period of 3 years out of a block of 10 years.
- Tax Audit for MSME shall be required in case the turnover exceeds Rs.5 Crore which was earlier Rs.1 Crore. However, this benefit can only be availed by those MSME whose total cash transaction does not exceed 5% of the total transactions.
- 8000 Crore allocated for National Mission for Quantum Technology over a period of 5 years.
- A new Export Credit Scheme shall be introduced called NIRVIK.
- National Logistics Policy shall be launched to make MSME more competitive.

CONCLUSION:

The MSME sector also contributes in a significant way to the growth of the Indian economy with a vast network of about 63.38 million¹ enterprises. To provide impetus to the manufacturing sector, the recent National Manufacturing Policy envisaged raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022. To become backbone of global manufacturing giants, SMEs must be technologically and skillfully upgraded. Industry-friendly policies should be initiated by the government for promoting infrastructural support facilities. Further the Government has to start implementing the above strategies for strengthening and upgrading the production potential and export orientation of SMEs.

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