

**Growth and performance of Micro, Small and Medium Enterprise (MSMEs) sector: with special reference to Andhra Pradesh.**

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**Abstract**

*Equitable distribution of income and wealth may possible by Micro, Small and Medium Enterprises (MSME) sector by decentralising industrial sector in rural areas there by create inclusive growth in India. Micro, Small and Medium Enterprises (MSMEs) sector may treat as an empowerment tool for the rural poor, women and social marginalised sections in the society. Most of Economists treated as a backbone of Indian manufacturing sector by proving more employment and income generating activities in rural segments of the society. MSME sector may suitable for the country like India, semi and unskilled labour excluded from large industries and services sectors. Micro, Small and Medium Enterprises sector create space for the semi and unskilled labour, thereby providing solution for the disguised unemployment in rural areas. Present paper to examine the growth and performance of Micro, Small and Medium Enterprises (MSMEs) sector in the Andhra Pradesh. This study is empirical in nature and focused on growth and performance of MSME sector. Present studies is based on secondary information and time series data, have been collected through directorate of industries Andhra Pradesh from 1940 to October 2016 and reports of MSME. Numbers of registered enterprises, employment generation of MSMEs, Investment of MSMEs are variables of the present study.*

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**Key Words:**MSME, disguised unemployment, empowerment, growth and performance.

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## **1. Introduction**

Micro enterprises are plays a vital role in rural development and it helps in developing rural areas with more employment opportunities with lower capital cost compare to big industries which need more capital and equipments. Micro enterprises can also help in industrialization of rural areas, which can also help in alleviating rural poverty through providing more employment, results to equitable distribution of national income and wealth.

SHG banking linkage model can helps their members to start own business and also SHGs in rural area have empowered illiterate and poor women by linking them to the formal banking system and involving members in activities of Micro-Entrepreneurship. SHGs are innovative organizational setup in India for the women empowerment and poverty alleviation. Every women in rural India should get chance to member in any one of SHGs in their locality for training and development, which can leads to develop prospective entrepreneur kills. Development of Micro-Entrepreneurship can help reduce the problem of unemployment, poverty and several social problems in the society. It ultimately helps in sustaining the process of development of the nation. When the SHGs arrange suitable training facilities for women in India, banks are giving financial support to carry out manufacturing and trading activities, if the Governments will procure the product of self Help Groups and arrange for enhancing the capacity of women in terms of leadership quality.

## **2. MSMED Act 2006, Definition of MSME**

First time the concept of “Enterprises” used by MSMED Act, 2006, classified the enterprises into three categories based on the investment limit, as fallows;

- Micro Enterprises
- Small Enterprises
- Medium Enterprises

<b>Manufacturing MSMED 2006</b>
Micro less than 25 lakh
Small 25 lakh - 5 crore
Medium 5 crore - 10 crore
<b>Services MSMED 2006</b>
Micro less than 10 lakh
Small 10 lakh - 2 crore
Medium 2 crore - 5 crore

Source:MSMED Act, 2006. **MANUFACTURING ENTERPRISES**

- If the investment of enterprise upto Rs. 25 lakh, said to be “Micro Enterprises”.
- If the investment of enterprises between Rs. 25 lakh to Rs. 5 crore, said to be “Small Enterprise”.
- If the Investment of enterprises between Rs. 5 crore to Rs. 10 crore, said to be “Medium enterprise”.

**SERVICE ENTERPRISES**

- If the investment of enterprise up to Rs. 10 lakh, said to be “Micro Enterprises”.
- If the investment of enterprises between Rs. 10 lakhs to Rs. 2 crore, said to be “Small Enterprise”.
- If the Investment of enterprises between Rs. 2 crore to Rs. 5 crore, said to be “Medium enterprise”.

### **3. Review of Literature**

**Judith Shaw (2004)**, his study conducted in Hambantota district, a rural region of Srilanka's south eastern coast. The main objective of the study was the impact assessment of micro enterprises on poverty reduction with help of micro finance. In his study area majority of 60 % people mainly depends upon smallholding firm micro enterprises and remain 15% of population depends upon nonfarm microenterprises like petty trade, animal husbandry and fishing. To get the information from 253 respondents he has used structured questionnaires and for 87 respondents he has used in depth interviews and focused group discussion during five months of 1999. The major finding of his study reveals that Hambantota microenterprises credit is not an effective solution to poverty, although it has positive impact on poor people, those who are in below poverty line.

**KKTripathy and Sudhir K Jain (2011)**, the main focus of their study is to examine the Self Help Group's sustainability and role of microfinance programmes in poverty reduction and development of microenterprises. Their study found that micro finance has no impact on poor people, but it has positive impact on rich people. Internal saving and group corps have a positive impact on income growth of members but formal credit (Bank credit) does not have any impact. Their study mainly concluded that socially and economically well-developed region has more likely to benefit from this programme. They have given policy implication to develop rural region with marketing facilities, product related infrastructure, capacity building, enhancement of rural education, marketing training.

**NishaBharati (2014)**, her study critically analysed the performance of Self Help Group bank linkage model and micro finance institution model. The major objectives of her study: (1) to understand the process, approach, design of implementation of micro finance approaches. (2) To analyse the performance of different approaches of microfinance to promote of microenterprises.

(3) To trace out the influencing factors of the microenterprise's performance. Case study method of research used and both qualitative and quantities data has collected for her study. Her study concluded that to establish micro enterprises, financial system approach has been useful for poor people. Self Help Group bank linkage model has good impact in promoting microenterprises. Due to higher interest rates in Micro Finance Institution model and limitation on loan amount in Self Help Group model has failed in expansion of micro enterprises in rural areas.

**Suprabha K (2014)**, the author was examine the determinants of empowerment of SHGs as microfinance clients to micro enterprises investors, also examine the problems in undertaking micro enterprises. Author studied different SHGs promoted by NGOs and government in two districts of Karnataka, namely Dakhina Kannada and Shimoga for cross sectional comparative study. Author has constructed consolidated empowerment index to study institutional and financial performance of the SHGs. Random sample technique has been adopted for selection of SHGs, to study the relative importance if different determinant factors by using correlation matrix and regression model. Multiple regression analysis was used to examine the effects of various determinates on empowerment of SHGs. His study reveals that NGO promoted SHGs has more empowerment than government's SHGs. The author found that major problem of SHGs was lack of marketing arrangements.

**Veronica W Ngugi, Ferongo(2014)**,their paper titled "Effects of microfinance on growth of small and micro enterprises in Mombasa County" the main objective of their study was impact of microfinance on growth of small and micro enterprises in Mombasa County. They have used descriptive survey method and adopted stratified, systematic random sampling technique. Their sample size was 157 small microenterprises and data was collected from 102 respondents, their rate of responses was 65%. Growth of small and micro enterprises was dependent variable, competitiveness, sales etc. were used as independent variable. Their study found that micro finance positively impact on growth of small and micro enterprises.

**E.K.Agbaeze and I.O Onwuka (2014)**, they have examine empirically on impact of micro finance bank on rural development in Nigeria, the main objective to study the role of micro finance bank. They have examine the impact of micro finance bank on deposit mobilisation, intermediation. And also they have looked into how micro finance bank actives have impact on loan penetration and long run economic growth. All these empirical findings have found that micro finance bank has positive impact on rural economy of Negiria.

#### **4. Objective of Study**

To examine the growth and performance of Micro, Small and Medium Enterprises (MSMEs) sector in the Andhra Pradesh.

## 5. Data and Methodology of study

This study is empirical in nature and focused on growth and performance of MSME sector, study is based on secondary information, based on time series data, have been collected through directorate of industries Andhra Pradesh from 1940 to October 2016 and reports of MSME, articles. Number of registered enterprises, employment generation of MSMEs, Investment of MSMEs are variables of study. Simple quantitative analysis is used to examine the growth and performance of MSMEs Compound annual growth rate (CAGR) analysis,, average of annual percentage change (AAPC), Percentage share analysis have been used in the study.

## 6. Data analysis

**Table 1: Total number of Registered MSMEs with UdyogAdhar Memorandum (UAM) in Andhra Pradesh.**

YEAR	MICRO			SMALL			MEDIU M		
	CAGR(in % )	AAPC(in % )	% of No. of units	CAGR(i n %)	AAPC(in % )	% of No. of units	CAGR(in % )	AAPC(in % )	% of No. of units
1940 to 1950	10.3	14.8	95.7	**	*	4.3	*	*	0.0
1951 to 1961	4.9	46.2	98.4	**	-10.0	1.6	*	*	0.0
1962 to 1972	7.8	26.0	92.7	7.2	40.0	6.6	**	-10.0	0.7
1973 to 1983	9.7	42.8	95.1	23.1	11.4	4.6	**	-20.0	0.3
1984 to 1994	7.1	48.6	93.1	10.1	37.8	6.4	**	-15.0	0.4
1995 to 2005	8.6	44.7	94.0	15.1	21.3	5.8	**	7.5	0.2
2006 to 2016	12.2	29.5	84.7	44.2	63.1	14.9	31.6	66.3	0.4

**Note:** \*No data found \*\* Insufficient data, hence unable to calculate CAGR, AAPC. **Source:** Directorate of Industries, A.P.

The above table explains the Compound Annual Growth Rate (CAGR), Average Annual Percentage Change (AAPC) and percentages share of number of registered enterprises with UdygAdhar Memorandum (UAM) from 1940-50 to 2006-16 in Andhra Pradesh. During the year 1940 to 1950 compound annual growth rate and annual average percentage change of micro enterprise was around 10.3 percent, 14.8 percentage respectively, but there was no CAGR and

AAPC in small and medium enterprises due to insufficient and lack of data during that period.

After 1950's CAGRs and AAPCs of micro, small and medium enterprises have been declining till 1973 and percentage share of micro enterprises have increased during 1951 to 1961 after that they have been falling. There was increasing trends in micro enterprises than small and medium enterprises during 1973 to 1983, this has results from government programmes, government of India had identifies the importance of small scale industries. Policy makers given importance to small industrial sector development in industrial policies resolution 1977 and 1980 but there was no impact on small and medium enterprises.

Industrial policies of 1977 and 1980 had impact on Compound Annual Growth Rate, Annual Average Percentage Change and percentage share to total of micro enterprises and they have increased to 9.7 percent, 42.8 percent and 95.1 percent respectively in Andhra Pradesh, but in case of small enterprises shows different trend. Compound Annual Growth Rate had increased but average annual percentage change, percentage share of small industries had declined. During 1976-83 Compound Annual Growth Rate of small enterprises had increased around 23.1 percent from 7.2 percent of 1962-72, Average Annual Percentage Change and percentage share of total enterprises had declined to 11.4 percent, 4.6 percent respectively. In case of medium enterprises CAGR was not found due fen enterprises had registered but there was negative average annual percentage change of -20 percent and percentage share of medium enterprises fallen down to 0.3 percent from 0.7 percent.

During the year 2006 to 2016 compound annual growth rate of micro, small and medium enterprises have been registering increasing growth rates of 12.2 peecent, 44.2 percent and 31.6 percent respectively in Andhra Pradesh. Data reveals that average annual growth rate of small and medium enterprises have been improved significantly and they have showing positive signals. But average annual percentage change and percentage share of total enterprises of MSMEs shows that there was increasing trends in the small and medium enterprises but falling trend in micro enterprises. Average annual percentage change and percentage share of total enterprises of small enterprises have been increasing to 63.1 percent and 14.9 percent respectively, in case of medium enterprises it was around 66.3 percent and 0.4 percent respectively during 2006 to 2016. Average annual percentage change and percentage share of total enterprises shows falling trend in case of micro enterprises with the value of 29.5 percent

and 84.7 percent respectively in Andhra Pradesh.

Data also reveals that percentage growth rates of CAGR, AAPC and percentage changes of small and medium enterprises in total MSME, have improved significantly than micro enterprises, this trend results from the government of India and Andhra Pradesh initiatives towards MSME sector development during the year 2006-2016. Government of India and ministry of MSME have implemented MSMED act 2006 and other programmes to enhance MSME sector during the year 2006-2016, which have result in improving small and medium enterprises significantly during the year 2006-2016 in Andhra Pradesh. In the same period growth rates of small and medium enterprises were high compare to micro enterprises, this trend results from credit programmes of different small scale industrial development banks like MUDRA. We can observe that from the time of Independence compound annual growth rate, annual percentage change and percent share of micro, small and medium enterprises to the total of MSME have improved during the year 1940-50 to 2006-16 in Andhra Pradesh.

**Table 2: Employment Generation of MSME sector in Andhra Pradesh.**

YEAR	MICRO			SMALL			MEDI UM		
	CAGR(in %)	AAPC(in %)	% of No. of units	CAGR(in %)	AAPC(in %)	% of No. of units	CAGR(in %)	AAPC (in %)	% of No. of units
1940 to 1950	11.6	33.2	64.2	**	*	35.8	*	*	48.8
1951 to 1961	13.5	57.2	41.6	**	*	58.4	*	*	0.0
1962 to 1972	5.5	24.1	46.8	-4.9	41.2	26.6	**	-10.0	26.6
1973 to 1983	12.9	59.4	39.3	54.9	432.9	57.4	**	-20.0	3.3
1984 to 1994	8.1	52.5	43.9	17.1	107.2	40.6	**	244.4	15.5
1995 to 2005	8.9	26.2	51.7	18.2	48.4	43.9	**	50.3	4.4
2006 to 2016	22.0	37.7	48.8	39.1	56.7	44.8	29.1	197.2	6.5

**Note:** \*No data found \*\* Insufficient data, hence unable to calculate CAGR, AAPC. **Source:** Directorate of Industries, A.P.

The above table illustrate the compound annual growth rate, average annual percentage change and percentage share of employment generation of MSMEs in Andhra Pradesh. The

Compound annual growth rate of employment of micro, small and medium enterprises have been increasing significantly during the year 1940-50 to 2006-16. CAGR of employment of micro enterprises have been increasing from 11.6 percent to 22 percent during the same year but, during 1973-83 CAGR was registered around 13 percent, this was result from 1977 and 1980 industrial policy resolutions. Industrial policies of 1977 and 1980 have set up small scale industrial sector development was one of the main objectives. Due to insufficient and lack of data of employment generation small and medium enterprises we are unable to calculate CAGR and average annual percentage changes for few decades. But, during the year 2006-2016 CAGR of employment generation of small and medium was around 39.1 percent and 29.1 percent respectively. In case of micro and small enterprises CAGR was registered high during the year 1973-83 results from 1977 and 1980 industrial policies.

Average annual percentage change has been improving during the year 2006-16 from 1940-50, APPC of employment of micro enterprises was registered as 33.2 percent during the year 1940-50, that was increased to 37.7 percent with some fluctuations in Andhra Pradesh. Due to insufficient and lack of data of employment generation of small and medium enterprises, unable to calculate APPC during the years 1940-50 and 1951-61, but from 1962-72 to 2006-16 they have been increasing significantly with the rate of 56.7 percent and 197 percent respectively. But during the year 1984-94 average annual percentage change of employment of medium enterprises was around 244.4 percent. During the same year medium enterprises had increased four times, this is results from 1991 industrial policy. As we know that 1991 industrial policy turned the industrial sector into new phase, remove all the restrictions on the industrial sector and which helps to enhance the medium enterprises during the year 1984-94.

Percentage share of employment generation of total MSME have been increasing from 1940-50 to 2006-2016. During the year 1940-50 micro enterprises providing 64.2 percent employment, remaining 35.8 percent employment providing by small enterprises during the same year. During 1940-50 to 2006-2016 employment generation of micro enterprises share have been declining to 48.8 percent during the year 2006-2016, but small and medium enterprises employment generation share increases to 44.8 percent and 6.5 percent respectively. This trend explains that in recent years small and medium enterprises have been developing, so the share of employment generation to the total MSME increases, but still micro enterprises

occupies major share in the total employment generation of MSME in Andhra Pradesh.

**Table 3: Total Investment of MSME sector in Andhra Pradesh.**

YEAR	MICRO			SMALL			MEDIU M		
	CAGR(in %)	AAPC(in %)	% of No. of units	CAGR(in %)	AAPC(in %)	% of No. of units	CAGR(in %)	AAPC(in %)	% of No. of units
1940 to 1950	12.8	112.4	40.7	**	*	59.3	*	*	0.0
1951 to 1961	6.1	59.6	69.0	**	1.6	31.0	*	*	0.0
1962 to 1972	8.8	47.3	11.3	-8.5	39.4	48.7	**	-10.0	40.0
1973 to 1983	16.7	39.6	26.1	40.6	57.8	50.3	**	-20.0	23.6
1984 to 1994	7.6	28.7	20.8	15.2	76.9	48.7	**	-0.6	30.6
1995 to 2005	11.2	35.8	23.8	15.7	22.7	56.3	**	21.0	19.9
2006 to 2016	27.4	41.1	17.8	46.1	69.5	65.9	29.7	77.3	16.3

**Note:** \*No data found \*\* Insufficient data, hence unable to calculate CAGR, AAPC. **Source:** Directorate of Industries, A.P.

The above table illustrate the compound annual growth rate, average annual percentage change and percentage share of investment of MSMEs. The Compound annual growth rate of investment of micro, small and medium enterprises have been improving during the year 1940-50 to 2006-16 in Andhra Pradesh. In case of investment of micro enterprise's compound annual growth rate was 12.8 percent during the year 1940-50 and it has been increasing 27.4 percent during the year 2006-16. In case of small and medium enterprises compound annual growth rate of investment has been improving to 46.1 percent and 29.1 percent respectively during the year 2006-16 in Andhra Pradesh. Average annual percentage change of investment of micro enterprises shows falling trends during the year 1940-50 to 2006-16, with the percentage of 112.4 percent to 41.1 percent, but average annual percentage change of investment of small and medium enterprises have been increasing to 69.5 percent and 29.7 percent respectively during the year 2006-16. So over the years average annual percentage change of investment of micro enterprises declining with the result from improvement in small and medium enterprises, which requires more investment to establish.

## **7. Relation Between investment and employment of MSME sector in Andhra Pradesh.**

The table 2 and 3 reveals that micro enterprises providing more employment with low capital investment and there may be positive relation between investment and employment in Andhra Pradesh. If we see the data during the year 2006-16 in the share of employment generation of MSME, micro, small and medium enterprises occupies 48.8 percent, 44.8 percent and 6.5 percent respectively. But, in case of percentage share of investment of MSME during the year 2006-2016 micro, small and medium enterprises occupies 17.8 percent, 65.9 percent and 69.3 percent respectively. From the above data we can observe that microenterprises share in employment generation of MSME was around 48.8 percent and investment share in MSME was around 17.8 percent this results show that micro enterprises providing more employment opportunities compare to small and medium enterprises in Andhra Pradesh.

Can observe that decreasing in investment leads to decreasing in employment which we can see from the investment and employment generation of microenterprises, percentage share of investment of micro enterprises have been decreasing to 17.8 percent during the year 2006-16 from 40.7 percent during the year 1940-50, in the same way of employment generation of micro enterprises have been decreasing to 48.8 percent from 64.2 percent in the same years. But in case small and medium enterprises when investment increases their employment generation have increased. So we can observe that decreasing in investment leads to decreasing in employment (we can see in case of percentage share of investment and employment generation of micro enterprises) and increasing in investment leads to decreasing in employment (we can see in case of percentage share of investment and employment generation of small and medium enterprises)

## **8. Major finding of the study**

Based on the performance of variables, study may find that percentage growth rates of CAGR, AAPC and percentage changes of small and medium enterprises in total MSME, have improved significantly than micro enterprises, this trend results from the government of India and Andhra Pradesh initiatives towards MSME sector development during the year 2006-2016. Government of India and ministry of MSME have implemented MSMED act 2006 and other programmes to enhance MSME sector during the year 2006-2016, which have result in improving small and medium enterprises significantly during the year 2006-2016. In the same period growth rates of

small and medium enterprises were high compare to micro enterprises, this trend results from credit programmes of different small scale industrial development banks like MUDRA.

The percentage share of employment of micro, small and medium enterprises have been increasing significantly during the year 1940-50 to 2006-16 in Andhra Pradesh. Data reveals that among the Micro, small and medium Enterprises, micro enterprises providing more employment than small and medium enterprises in Andhra Pradesh. In case of Percentage share of Investment of micro enterprises lower than percentage share of investment of small and medium enterprises in Andhra Pradesh. Study may also find that micro enterprises providing more employment with low capital investment and there was positive relation between investment and employment.

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