

THE CONTRIBUTION OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIAN ECONOMY

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Abstract:

The MSME occupy a strategic importance in terms of output, exports and employment created in Indian economy. It produces about 45 per cent of manufacturing output and 40 per cent of the total exports. Furthermore, about 80 million persons engaged in over 29 million units throughout the country. India is labor abundant country. The MSMEs are thought to have lower capital-output and capital-labour ratios as compared to large-scale industries, and therefore, better serve growth and employment objectives. With the scanty investment in comparison to the large-scale public and private enterprises, the MSMEs turn out to be more efficient, thus providing enlargement employment opportunities at the low cost. Basically, the employment intensity of MSME is estimated to be four times greater when compared with other large enterprises.

Key words: Employment, Enterprises, Manufacturing, Development, Automation.

Introduction:

The Micro, Small and Medium Enterprises (MSMEs) have always been the backbone of Indian economy. They have played a great role in ensuring the socialistic goals like income equality, employment generation, poverty eradication and balanced regional development as envisaged by the planners at the beginning of five year plans. This sector has been recognised as engine of growth all over the world. Many countries of the world have established a MSME Developmental Agency as the nodal agency to coordinate and oversee all government initiatives in respect of the development of this sector.

MSMEs : Conceptual Background

The MSMED Act, 2006 defines the MSMEs based on amount investment. Enterprises where the investment in plant and machinery excluding land and building for engaged in manufacturing or production, processing or preservation of goods is not exceeding Rs.25 lakhs and investment in equipment excluding land and building for enterprises engaged in providing or rendering of services not exceeding Rs.10 lakhs are called as micro enterprises. For small enterprises the above said investment limit is expanded to more than Rs.25 lakhs but does not exceed Rs.5 crore for goods and more than Rs.10 lakhs but does not exceed Rs.2 crore for services. And for medium size enterprises the limit of investment is more than Rs.5 crore but does not exceed Rs.10 crore for goods and more than Rs.2 crore but does not exceed Rs.5 crore for services (*Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated 05.10.2006.*). In China, an industrial MSME is defined based on employment generated by enterprise, as having up to 2,000 employees, while a small business has less than 300 employees and a medium sized business has employees between 301 and 2,000.

Contribution of MSMEs in Indian Economy:

In Japan, MSMEs employ 70 per cent of the wage earners and contribute 55 per cent of the value added and in Thailand, it employ 60.7 per cent of the population while contributing 38 per cent to the GDP. China's MSMEs contribute to over 68 per cent of the exports, in the last 20 years created more small and medium enterprises (SME) than the total number of SMEs in Europe and the US combined. The MSME occupy a strategic importance in terms of output, exports and employment created in Indian economy. It produces about 45 per cent of manufacturing output and 40 per cent of the total exports. Furthermore, about 80 million persons engaged in over 29 million units throughout the country (*Planning Commission 2012*). The contribution of MSMEs in India's GDP has been increased from 29.57 per cent to 29.94 per cent during 2011-12 to 2013-14; furthermore, it slightly decreased and reached at 29.39 per cent in 2015-16. Growth rate of this sector in Indian economy has been decreased from 15.27 per cent to 9.43 per cent during 2011-12 to 2015-16. It is worldwide true that as income increases the share of the informal sector decreases and that of the formal MSME sector increases.

MSMEs account for more than 80 per cent of the total industrial enterprises in India creating more than 8000 value added products. The most important contribution of MSMEs in India is promoting the balanced economic development. The trickle down effects of large enterprises is very limited as compared to small industries where benefits of percolation of economic growth are more visible. While the large enterprises largely created the islands of prosperity in poor India, small enterprises have succeeded in fulfilling the socialistic objectives of providing balanced and equitable growth. It had also helped in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income. Urban area with around 8 lakhs 57 thousand enterprises accounted for 54.77 per cent of the total working enterprises in registered MSME sector whereas around 7 lakhs and 7 thousand enterprises means 45.23 per cent of the working enterprises are located in rural India. Small industries also help the large industries by supplying them ancillary products. Modern products account for more than 95 per cent of the MSME exports especially in the sports goods, readymade garments, plastic products etc. Since these products are mostly handcrafted and not only eco-friendly and exists a tremendous potential to expand the quantum of MSME led exports but also they act as ancillary industries for Large Scale Industries providing them with raw materials, vital components and backward linkages. The contribution of manufacturing MSMEs in the country's total manufacturing gross value of output has also been remained at about 33 per cent during last five years.

As per NSS 73rd Round (2015-16), the sector comprises of 63.88 lakh 88 thousand units and it has created 11crore 10 lakhs jobs in the economy. The ministry has taken a number of steps for promoting development of MSMEs in the entire economy, which includes credit supply, technological up gradation, quality improvement and marketing support. The government provided MUDRA, Stand up India, increased coverage of Credit Guarantee Fund for MSMEs through the banks. The Ministry is also tasked with the promotion of Khadi, Coir and Village Industries. Khadi and Village Industries Commission (KVIC) serves the basic needs of the processed goods of the vast rural areas in India and it also provides sustainable

employment to near about 152 lakh persons. KVI sector represent prime heritage product, which is ethnic as well as ethical. The sector has a potentially strong clientele among the middle and upper echelons of the society. KVI setup 1,93,818 units, with provided employment to about 14.75 lakh persons and total margin money assistance given was Rs. 4,735.93 crores during 2014-18. Another Scheme of Fund for Up-gradation and Regeneration of Traditional Industries (SFURTI) cluster development scheme implemented by the government with aims at organization of traditional industries and artisans into clusters in order to make them competitive and sustainable in the long the term. The scheme was revamped during 2014 with an outlay of Rs. 149.44 crores for developing 71 clusters with coverage of 44,500 artisans in the first phase. During the period of 2015-18, 72 detailed project reports of clusters have been approved providing employment to over 60,000 artisans with funding commitment of Rs. 140 crores. Out of 72 clusters, 35 have been completed at end of March 2018. For the last four years, employment in these two sectors has increased by more than 7.41 lakh persons. The total employment in these sectors at end of March 2018 stands at 137 lakh 79 thousand persons and the total production in these sectors has increased by around Rs. 22711.83 crores during the last four years, taking the total to Rs.48820.91 crores.

India is labor abundant country. The MSMEs are thought to have lower capital-output and capital-labour ratios as compared to large-scale industries, and therefore, better serve growth and employment objectives. With the scanty investment in comparison to the large-scale public and private enterprises, the MSMEs turn out to be more efficient, thus providing enlargement employment opportunities at the low cost. Basically, the employment intensity of MSME is estimated to be four times greater when compared with other large enterprises. The MSMEs generate the highest employment per capita investment; they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment. The MSME sector in India has grown significantly since 1960 with an average annual growth rate of 4.4 per cent in the number of units and 4.62 per cent in employment. This sector created huge employment opportunities for many unemployed youth. And, there is no economy in the world that can provide jobs to so many fresh graduates every year. MSMEs are the boon for many of this fresh manpower. The MSMEs are making more inclusive growth which touched upon the lives of the most vulnerable and marginalized. For many poor families, it is the only source of livelihood. Thus, instead of taking a welfare approach, this sector seeks to empower people to break the cycle of poverty and deprivation. It focuses on people's skills and agency. However, different segments of the MSME sector are dominated by different social groups. About 50 per cent of wealth in India is owned by just 100 people who are due to unequal distribution of wealth. Inclusive growth is on top of the agenda of Ministry for MSME for several years. While poverty and deprivation are a deterrent to the development of India, including marginalized sections of society is a key challenge lying before the Ministry of MSME. The socially backward groups owned almost 66.27 per cent of MSMEs, though bulk of that can be attributed to OBCs owning in 49.72 per cent. The representation of SC and ST owners in MSME sector was low at 12.45 per cent and 4.10 per cent respectively. In rural areas, almost 73.67 per cent of MSMEs were owned by socially backward groups, of which 51.59 per cent

belonged to the OBCs. In urban areas, almost 58.68 per cent belonged to the socially backward groups, of which 47.80 per cent belonged to the OBCs. Central government has introduced two schemes namely, National Scheduled Caste / Scheduled Tribe Hub and Zero Defect Zero Effect (ZeD) Scheme on October 18, 2016. It was for the first time after the constitution of the Ministry in the year 2007 that Hon'ble Prime Minister blessed the unveiling of the Schemes of the Ministry. Post the inception of 'Make in India', a signature initiative by the prime minister of India, the process of incorporating a new business has been made easy. Since the MSME is the backbone in making this dream a possibility, the government has directed the financial institution to lend more credit to enterprises in MSME sector.

Udyog Aadhaar memorandum is one of the best schemes of MSME development launched by GoI. In this, the Aadhaar card is a mandatory requirement. The benefit of registering in this scheme is ease in availing credit, loans, and subsidies from the government. Registration can be done both ways in the online mode or the offline mode. 'Zero Defect Zero Effect' is another model is prepared for development of this sector. In this model, goods that are manufactured for export have to adhere to a certain standard so that they are not rejected or sent back to India. To achieve this, the government has launched this scheme. In this, if the goods are exported these are eligible for some rebates and concessions.

New Initiatives Taken by GOI:

Prime Minister's Employment Generation Programme (PMEGP), which has been made on-line from 1st July 2016, has resulted into direct transfer of subsidy into the bank account of the beneficiaries. It also resulted into record utilization of margin money of Rs.1312.40 crore during the year 2017-18. The National Scheduled Caste/Scheduled Tribe Hub is an initiative of Government of India targeted towards developing a supporting ecosystem for SC and ST entrepreneurs and the same was launched by Hon'ble Prime Minister on 18th October, 2016. The scheme has resulted in registration of 13,211 SC and 2,704 ST enterprises on MSMEs Databank by end of April, 2018. About 98 Vendor Development Programmes have been conducted to support SC and ST entrepreneurs as suppliers to the various Central Public Sector Undertakings (CPSUs). Public procurement order has made it mandatory from April 1, 2015 for Central Ministries and Central Public Sector Enterprises (CPSEs) to procure 20 per cent of goods and services from MSMEs. 4 per cent out of the 20 per cent are reserved for SC and ST owned MSMEs. Various vendor development initiatives have also been taken up.

Conclusion:

To survive with such issues and compete with large and global enterprises, MSMEs need to adopt innovative approaches in their operations. They should innovative, inventive, international in their business outlook, have a strong technological base, competitive spirit and a willingness to restructure themselves can withstand the present challenges and come out successfully to contribute about 29 per cent to GDP. Indian MSMEs are always ready to accept and acquire new technologies, new business ideas and automation in industrial and allied sectors.

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