

***Micro, Small and Medium Enterprises (MSME)- An Indian Perspective***

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***Abstract***

The present paper is an attempt to understand the MSME from Indian perspective from the point of view of employment and investment scenario, share of MSME sector in total GDP, sector wise break up, sector wise growth comparison and geographical wise division of registered and unregistered units etc. In this regard secondary data is taken as base. The present paper will give an opportunity for more intensive research perspective from segment wise classification of the data.

**Key words-** MSME, growth, economic condition and labour

**An Overview**

For developing a successful career skill, acquisitions are important as it gives the human being the much needed boost to sustain in a highly competitive environment. Like most of the developing countries, India is also having its own sorts of problems and among these unemployment and poverty are two major issues which the country can't ignore at any cost. Most of the time it is observed that the policy makers failed to realize the root cause of the problem and landed up in such policy initiatives which either ineffective or inappropriate given the present socio economic conditions of the country. Today India has the advantage in terms of manpower but these resources can't be utilized if not trained properly. The huge amount of talented young workforce to the tune of 356 million in the age group of 10 – 24 years is surely an appreciable figure in terms of demographic dividend which most of the other countries are looking for. Out of these entire groups some of them are already ready for the job market and some of them are being prepared to join the market in due course of time. According to World Bank Development Report, 2013, creations of new job opportunities are more in most of the developing and less developed countries. The said report also mentioned that Sub Saharan Africa's labour force is growing at 8 million per year whereas in case of most of Asian countries this trend is approximately 12 million per year. By this trend the projected new job requirement will be to the tune of 600 million by 2020.<sup>1</sup>

Creation of this job opportunities are obviously a huge task and need different interventions from government's point of view. Micros, Small & Medium Enterprises (MSME) are one such sector which has the potential to absorb this growing labour force. Like most of the developing countries, in case of India also MSME sectors plays a dynamic role to absorb a large number of workforce and that to be at a lower capital investment as compared to heavy industries where initial investment is huge. Not only that, it has the option to create job opportunities in those areas where regional disparities has led to inequality and backwardness. It is often been noticed that due to backwardness of the some of the region most of the industries are reluctant to go to those areas. This has led to problems of inequalities and regional disparities in terms of growth prospects of the said region. But MSME sectors, are based in a specific locality thus have the advantage of local development both in terms of economic upliftment as well as employment opportunities for local people. As the main objective of regional and local development links to employment opportunities, this needs to be aligned with usage of local resources, i.e. both

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<sup>1</sup> World Bank Development Report, 2013

human as well natural. Strategies for regional development to stimulate and maintain business activity and employment include increasing entrepreneurial behaviour and improving entrepreneurial culture, encouraging new ventures, innovations and start-ups, attracting businesses and investments, and developing and expanding existing businesses.

### **Objective of the study**

- To understand the employment and investment scenario.
- To understand the share of MSME in GDP.
- To understand the sector wise breakup.
- To understand the geographical wise division.

### **Methodology**

Secondary data used for understanding the concepts and compiling the data.

### **MSME: Indian Perspective**

MSME sector has huge potential in countries like India, where abundant labour resources often helps to fulfill the much needed labour requirement. Unlike any developed countries, expansion of MSME sector has greater prospects in developing as well as less developed countries. This growth perspective has a serious economic implication as it will lead to overall improvement of the socio economic performance of the country. Not only has that it helped to bring down the regional disparities as discussed above. In case of India, the sector is able to provide both self employment opportunities and wage employment and in this process it becomes one of the largest employers in low skilled sectors after agricultural sector. As the uncertainty related to agriculture and low application of modern agri based activities in farm land reduces the prospect of higher earnings, there is a necessity that come across to generate alternative sources of revenue, mostly in non – farm sectors where people can get access to employment opportunities and in this process are able to survive in a tough competitive economic environment.

The most important characteristics of MSME sector is their ability to generate sustainable livelihood for local people by providing employment opportunities as well as by procuring raw materials from local areas only. This policy not only helps to reduce the cost of production, it also able to give competitive advantages if the products are marketed properly. As estimated by the Ministry of MSME, the

Government of India, the sector is able to generate around 100 million jobs, with the help of 46 million units situated at different parts of the country. The sector is able to contribute over 38% of overall GDP and contributing around 40% and 45% in export and manufacturing output respectively. Such a robust growth is possible as the sector has able to expand its production expertise in various sectors starting from traditional to hi – tech products. At present the sector is producing around 6000 different products in various categories and this entire scenario is moving towards a positive note.<sup>2</sup>

Before going into the details of sectoral perspective of MSME sectors, it is important to address the definitions of the sectors. According to Ministry of MSME, Government of India, the following definitions can be incorporate for the study purpose:

**Registered Sector:** Enterprises registered with District Industries Centres in the State/ UTs. Khadi and Village Industries Commission/ Khadi and Village Industries Board, Coir Board as on 31.03.2007 and factories under the coverage of section 2m(i) and 2m(ii) of the Factories Act 1948 used for Annual Survey of Industries having investment in plant & machinery up to Rs.10 crore were considered to belong to registered sector.

**Unregistered Sector:** All MSME engaged in the activities of manufacturing or in providing/ rendering of services, not registered permanently or not filed Entrepreneurs Memorandum Part-II/ [EM-II] with State Directorates of Industries' District Industries Centers on or before 31-3-2007 are called unregistered MSME.

**Small Scale Industrial Units (SSIs):** An industrial undertaking in which the investment in fixed assets in plant & machinery, whether held on ownership terms, or on lease, or by hire purchase, does not exceed `100 lakh as on 31-03-2001 were be treated as a Small Scale Industrial Unit.

**Micro Small Medium Enterprises (MSME):** MSME Sector consists of any enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership or undertaking or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of Industry Development & Regulation Act, 1951 and other enterprises engaged in production and rendering services, subject to limiting factor of investment in plant and machinery and equipments respectively as noted below:

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<sup>2</sup> Annual Report,2014 – 15, Ministry of MSME, Government of India

**Classification of MSME units in case manufacturing sector:**

- An enterprise can be classified as 'Micro' if investment in plant and machinery does not exceed Rs. 25 lakhs.
- An enterprise can be classified as 'Small' if the investment in plant and machinery is more than Rs.25 lakhs but does not exceed Rs.5 crore.
- An enterprise can be classified as 'Medium' if the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 Crore.

**Classification of MSME units in case of services sector:**

- An enterprise can be termed as 'Micro' if the investment in plant and machinery does not exceed Rs. 10 lakhs.
- An enterprise can be termed as 'Small' if the investment in plant and machinery is more than 10 lakhs but does not exceed Rs. 2 crore.
- An enterprise can be termed as 'Medium' if the investment in plant and machinery is more than 2 crore but does not exceed Rs.5 crore.

As per this definition, it can be seen that the main difference that exists between micro, small and medium enterprises are in terms of kind of investment that the players able to bring.

The table below indicates the year wise investment and employment generation by the MSME sectors in India:

**Table 1.1. Employment and Investment Scenario – MSME Sector**

Sl. No.	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
I	II	III	IV	V
1.	2006-07	361.76	805.23	868,543.79
2.	2007-08 <sup>#</sup>	377.36	842.00	920,459.84
3.	2008-09 <sup>#</sup>	393.70	880.84	977,114.72
4.	2009-10 <sup>#</sup>	410.80	921.79	1,038,546.08
5.	2010-11 <sup>#</sup>	428.73	965.15	1,105,934.09
6.	2011-12 <sup>#</sup>	447.64	1,011.69	1,182,757.64
7.	2012-13 <sup>#</sup>	447.54	1,061.40	1,268,763.67
8.	2013-14 <sup>#</sup>	488.46	1,114.29	1,363,700.54

**Source:** Annual Report, 2014 – 15, Department of MSME, Government of India, pp 15

The table 1.1 indicates that over the years, the MSME sector has shown growth in terms of employment generation and capital formation. But there seems to be less expansion in terms of total working enterprises. The number which was around 361 lakhs during the year 2006 – 07 has increased to 488 lakhs, during the year 2013 – 14. The gap is clearly exists and adequate opportunities are there for a proper expansion of the sector in various segments. It is of no doubt that the existing resources have not been utilized properly and the same if addressed then surely it will increase the job opportunities for the needy groups.

**Table 1.2. Share of MSME Sector in Total GDP (in Percentage & at 2004 – 05 Prices)**

Year	Share of MSME Sector in Total GDP (%)		Share of MSME Manufacturing Output in total Manufacturing Output (%)
	Manufacturing Sector MSME	Services Sector MSME	
2006 – 07	7.73	27.40	42.02
2007 – 08	7.81	27.60	41.98
2008 – 09	7.52	28.60	39.63
2009 – 10	7.45	28.60	39.63
2010 – 11	7.39	29.30	38.50
2011 – 12	7.27	30.70	37.47
2012 – 13	7.04	30.50	37.33

*Source: Annual Report, 2014 – 15, Department of MSME, Government of India, pp 16*

The year wise breakup of MSME sector's GDP contribution is impressive but the downward trend of MSME unit's overall contribution towards manufacturing sector is an area of concern. The growing contribution of service sector can also be witnessed but the same remains stagnant for quite sometimes. Year on year growth has not seen much improvement as compared to contribution of other factors of production apart from MSME sectors. These are the areas of concern which needs immediate attention from the policy makers.

The sector wise breakup of MSME units can throw some lights on probable areas where the industry has the opportunity to expand its business activities. The vast and diversified need of Indian consumers and

subsequent industrial activities both in case of manufacturing units as well as consumer durable goods, make ample opportunities for MSME players in this regard. Most of the time it can be seen that rapid industrialization and raising level of consumerism will increase the scope of sector as most of the time the sector itself working as a ancillary or downstream industries. Although the sector is producing 6000 different types of products or services still it can be categorized under some broad trade of business activities. The details of the same are listed in the table below. A careful analysis can show the untapped opportunities which will surely give leverage to the sector.

**Table 1.3. Sector Wise Breakup of MSME Units**

Sector	%
Retail trade, motor vehicles, repair of personal & household goods	39.85
Manufacture of wearing apparel, dressing & dyeing	8.75
Manufacture of food products & beverages	6.94
Other service activities	6.20
Other business activities	3.77
Hotels & Restaurants	3.64
Sale, Maintenance & repair of motor vehicles & bikes, retail sales of automotive fuel	3.57
Manufacture of furniture	3.21
Manufacture of textiles	2.33
Manufacture of fabricated metal products	2.33
Others	19.40

**Source:** Annual Report, 2014 – 15, Department of MSME, Government of India, pp 17

It can be witnessed that the biggest participants in from MSME segment is coming from repair of personal and household goods. This is a segment which has less industry participation and mostly related to serving the individual household consumers. It is not of the denying fact that this segment is not attractive but to get a true industry blend, the sector should move towards other hardcore industrial productive activities where active participation with greater role in industrial activities should become the primary motive. Thus sectors like food and beverages, apparel, retail, hotel and restaurant sectors

should come as the primary area where MSME sectors can play an active role both as a direct player as well as secondary suppliers towards large business houses. As it can be seen in the above table that the MSME players are participating in these sectors but the rate of participation is relatively less as compared to the kind of demand that may exist.

**Table 1.4. MSME Sector Wise Growth Comparison**

Sector	No. of Enterprises (%)		Employment (%)	
	Manufacturing	Services	Manufacturing	Services
Registered Sector	3.76	0.47	9.84	2.06
Unregistered Sector	25.90	32.83	22.57	36.11

*Source: Annual Report, 2014 – 15, Department of MSME, Government of India, pp 22 - 24*

As MSME sector is broadly divided into registered and unregistered sector, the above table is an indication which highlights a huge difference in terms of growth perspective. It can be witnessed that in terms of number of enterprises that are being operating in India, approximately 4% are belong to registered segment while around 26% are belong to unregistered segment and this is the figure which shows the outcome of manufacturing sector only. The percentage of MSME units operating in service sector is more widen and as it can be seen that in this industry, less than 1% is operating under registered segment while approximately 33% MSME units are operating in unregistered segment.

In terms of employment opportunities created by the manufacturing as well as services sector, the gap is exists. Under manufacturing sector, approximately 10% employment has been created in the registered sector while the in case unregistered sector, this percentage is approximately 23%. In case of services sector, 2% employment opportunities have been created under registered sector, but in case of unregistered sector, this percentage is 36%. This gap shows that unregistered sector, still dominates the business of MSME sector as compared to registered sector. This trend needs to be improved and contribution of registered sector should be improved. Efforts should be made to make the unregistered sector as registered units so that government initiatives can be implemented properly.

**Table 1.5. Geographical Area Wise Division of MSME Players (Registered & Unregistered Units)**

Unit	Urban (%)	Rural (%)
Registered Units	54.77	45.23
Unregistered Units	44.21	55.79

*Source: Annual Report, 2014 – 15, Department of MSME, Government of India, pp 30 - 31*

The table 1.5 shows geographical area which presence of MSME units in both registered and unregistered segment. It can be seen that concentration of registered MSME units are more in urban areas as compared to their rural counterpart. In case of unregistered units, the situation is reverse. The due various legal rules and regulations availability of unregistered units are more in rural areas as most of the MSME players either do not have the idea or simply their doing in house business activities with no exposure to outer world market. They hardly have enough idea about the marketing activities that need to be undertaken for the smooth functioning of the units. As a result of this, these units are mostly been neglected and simultaneously failed to get proper exposure in terms of various government schemes and facilities which may become helpful for their business activities.

Thus, overall like most of the other developing countries in the world, India is also fast becoming a major market player as it has the advantage of huge consumer base but the same need to be channelized to resolve various social as well economic issues. MSME is a sector which surely plays a beneficial role and may acting as a driver for future growth. But the sector is not free from various disadvantageous situations which might hamper this growth prospect. Thus, along with the development of the sector these issues should be handled with utmost care.

### **Concluding Note**

The above area has categorically focuses on different dimensions of MSME sectors so as to understand the overall development initiatives that the industry is looking for. There is no doubt that the initiatives are being taken by various stakeholders but overall implementation of the said programmes remains unanswered. The major bottleneck that the India is facing at present is lack of infrastructure which is a must to support any industrial activities. In this aspect, it may not be possible for government to implement this mammoth task. Role of private sectors are also equally important. But most of the time

it can be seen that this role is restricted to training and development activities only. Direct participation of private players in MSME development has not been realized till date. The kind of support that the government is trying to provide is basically linked to job opportunities only. Although this is to some extent true but the same can't be seen as a tool for employment generation only.

Overall it can be said that the industry has the potential both in terms of employment generation as well as nation building but the same needs to be aligned with current market demand and need of the customers. The approach should be such that in near future the sector become self sufficient so that it can sustain the volatility in business environment.

### ***Referecnes***

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