

4. Micro Small And Medium Enterprises And Employment In India

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Abstract:

MSME plays very important role in the growth and development of Indian economy. They have very significant contribution in Inclusive and sustainable growth, employment generation, poverty eradication, rural development, Income distribution as well as export and regional resource generation. This is one of the most vital and vibrant sector of Economy to create more jobs and providing self-efficient base of Industrial development.

MSME is providing opportunities for both type of employment self (as entrepreneur) and wage employment. This is also contributing significantly in social and economic welfare of the country. In this paper we used secondary data from various sources and descriptive research methodology to study role of MSME. SMEs have the power to propel India to new heights. Hence, it seems like there is a silent revolution happening in India powered by MSMEs.

MSME has amazing capacity to utilize all local resources at very low cost and analyze the need of market as well as they adjust their production according to meet the demand of their product. This is the most dynamic sector just next to agriculture in India. This is a reason it is called “Back Bone” of the whole economy. Today the MSMEs are widening their domain across sectors of the economy, producing diverse range of various products and services to meet the demand of domestic and international markets. Small and Medium Enterprises (SMEs) are playing vital role for the economic growth and stability of country and decisive position especially for developing countries as they facilitate economic activity and provide huge employment thus contributing to poverty reduction.

In this paper a detail analysis made to cover the performance, growth and relation with employment to understand their role in employment generation, product diversification and importance in Indian Economy.

Keywords:

MSME, Employment, GDP Contribution, Growth and Development,

Introduction:

In 2007 Ministry of Small Scale Industries and Ministry of Agro and Rural Industries were merged to form Ministry of Small, Medium and Large Scale Industries. Development of MSME is very positive indicator of country's economy. MSME plays very curtail role to generate employment to the huge populated country like India. The Idea behind focusing and promoting MSME is to generate more employment opportunities, eradication of poverty, utilizing regional natural resources and create healthy business environment to mobilize labours, capital and local resources etc.....(Dr Uma Pujar (2014)). it has been observe that acknowledgement and promotion of MSME has been one of the important strategy of developing countries to increase exports and stand strong in world market. MSME has amazing capacity to utilize all local resources at very low cost and analyze the need of market as well as they adjust their production according to meet the demand of their product. This is the most dynamic sector just next to agriculture in India. This is a reason it is called "Back Bone" of the whole economy.

MSME works as the primary class for entrepreneurship, which basically started by individual creativity and innovation. As per CSO Ministry of statistic and programme implementation (MOSPI) the share of MSME in Gross Value Added in total GAV was 31.8% in 2016-17. According to the Directorate General of Commercial Intelligence and Statistics (DGCIS) the share of MSME related products in total Export from India was 48.10% in 2018-19. The information share by NSSO 73rd round in 2015-16, estimated worker of unincorporated agriculture MSME were 11.10 crore. The importance of MSME is very much proved by these facts.(Press information Bureau,(2019) MSME).

Employment generation is the salient objective of Indian Economy and MSME are very capable to eradicate this in constructive manner poverty elevation, inclusive growth and income inequality were interlinked with only one solution of employability. There are three main dimensions of employment in India, problem of productivity, problem of opportunity, problem of unskilled labour. MSME provides basic solution for all these problems by offering them opportunity to work, using labour intensive technology to skill them and gradually enhancing productivity in them.

Today the MSMEs are widening their domain across sectors of the economy, producing diverse range of various products and services to meet the demand of domestic and international markets. Small and Medium Enterprises (SMEs) are playing vital role for the economic growth and stability of country and decisive position especially for developing countries as they facilitate economic activity and provide huge employment thus contributing to poverty reduction. The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of registered MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lac estimated registered MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively. (Mehta, R. (2019).

India has talent to reproducing ideas and young entrepreneurs in the recent past. Start-up activity is at an all-time high. Start-ups have proliferated across markets and all industries, despite all the mistiness and uncertainty in the policy framework. The "Start-up India" initiative has been launched on January 2016 with aims at fostering entrepreneur-ship and promoting innovation by creating an ecosystem that is conducive for growth of Start-ups. The objective is that India must become a nation of job creators instead of being a nation of job seekers and with huge populated country this must be taken into consideration. Industrial sector is animated by the fact that India has the third largest number of start-ups globally.

MSME sector are instruments of inclusive and sustainable growth which touch upon the lives of the most vulnerable and deprecate. In India, for many 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.

MSME sector contributes significantly in export income, at the national level, several factors contributed to the increasing trend of MSME internationalization like – structural shift in the composition of MSME exports from traditional to non-traditional items, competitiveness, nature of production, mobility of resources, modes of entry such as MNCs and e-Commerce etc. The highly vibrant and dynamic nature of the sector over the last five decades has been quite appealing to policy makers, government agencies and research organizations all alike.

Both the central and state Governments have been working toward the promotion and development of MSMEs in an effort to encourage entrepreneurship, employment and livelihood opportunities. Government is

also committed to enhance the competitiveness of MSMEs in the changed economic scenario.

Apart from all importance and challenges now the issues of low demand in the economy in large measure because of the COVID19 pandemic and the ban on the Chinese goods. This issue has devastating impact on MSME businesses. On the bright side domestic MSMEs are known for producing expensive but better-quality products in comparison to the poor-quality Chinese products which dominate the unorganized retail sector. And this will be a brighter opportunity for MSME sector.

Statement Of The Problem:

This is the second largest employment generation section just after agriculture. It provides near about 11.10 crores employment all over the India but still the situation of MSME in India is not much better. 90 % of MSME are in financial crises and depend on informal sectors for funding.(Micro, small & medium enterprises, (2019). Although they generate huge employment and contribute in GDP but still they have low outreach and facing serious threat to non-availability of new market reach. Even lack of skilled labour and knowledge make their situation worse in competitive world.

This sector has huge potential but not develop systematically. This sector suffers lot due to lack of technical up-gradation and weak financial sources. Although this sector contribute about 45% of total export income but still neglected and backward. With the huge capacity to produce millions of employment and self-sufficiency of developing country like India it should be re-considered and redefined. Even the Government of India believes that there is only one way to sustained job creation and inclusive economic growth is the micro, small and medium businesses like any other country in the world. Unemployment growth is rising day by day due to various reasons and in present circumstances MSME is the only way to stop and increase jobs in rural as well as urban employment.

Scope And Objective Of The Study:

As the problem is well known and huge so this is an urgent need to focus on improving employability to achieve self-efficiency, we must develop MSME and resolve its related issues. Poor litigation system, Bureaucratic delays in getting clearances and financial support is main issues. MSME not only helpful in generating employment but also contribute in Export income.

The main objective of this paper is:

- To understand the role of MSME in employment generation of the country.
- To understand the main drawbacks of MSME
- To analyze status of MSME and their diversification.
- To evaluate importance of MSME in Economy.

Relevance Of The Proposed Study For Policy Making:

MSME has very important role to developing country like India. They help reduce poverty by creating jobs for the country's growing labor force. MSME are the boon for fresh talent and it is the most significant driver in India which is contributing to the tune of 8% to GDP. Considering its contribution to manufacturing, exports, and employment, other sectors are also benefitting from it. This micro enterprises aim to create large-scale employment in country, separate from the formal sector. And they can achieve this target with very limited finances and investment. Another objective is to spread industries and trade in an economically backward area. This helps in the development of the overall economy. This analytical study will help to understand the present situation of MSME and employment with basic understanding of various issues. According to World Bank, formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies. (Micro, small & medium enterprises, (2019)

600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are generated by SMEs, which also create 4 out of 5 new positions. However, access to credit remains a major problem to the MSME sector globally. (Micro, small & medium enterprises, (2019)

Today MSME enterprises need to adopt best practices of corporate culture and follow international standards to move forward for offering innovative solutions. This focus should be on transfer of information and skill development to effectively use the transferred technology. This will help policy makers to find some way out to provide basic support to survive in comparative world. The policies of interest are state outlays and subsidies targeted towards this sector. More specifically, its capacity to create employment opportunities and its capability to achieve sustainable growth should be notice.

It has been noticed that the promotion of inter-firm linkages between large firms and MSME through subcontracting and acclimatization in both public and private sectors which has been an important dimension of India's MSME policy. Any growth of ancillary and sub-contracting would be a great advantageous to the MSME sector by way of assured marketing, technical assistance, finance support, and supply of raw materials and training. However a significant proportion of MSME subcontracting and acclimatization are informal in nature. The growing inter-firm linkages, formal as well as informal, would have benefited the economic performance of the MSME sector.(Joes, Tom(2019).

Major Research Work Reviewed:

There are many studies have been done in MSME sector with various perspective and analysis at national International level. Some are very relevant to understand nexus between employment and MSME we can quote as:

(Syal Sabina, (2015) explain in her paper that MSME sector is often being termed the “engine of growth” of the country. The factor like export promotion, tooling and technology, manpower training, managerial skills are gave enormous opportunities for growth and better performance to the economy. It is concluded that MSME in the Indian economy have shown limitless opportunities and excellent performance with the contribution of Industrial production and export Income.

According to financial express near around 5.70 lakh micro enterprises have been supported with margin money of Rs 12,902 crore giving employment to approximately 47 lakh people as on October 31, 2019, under the scheme of central government Prime Minister's Employment Generation Programme (PMEGP) in FY09, according to the government data. The PMEGP scheme intends to boost entrepreneurship by supporting individuals setting up micro-enterprises with loans up to Rs 25 lakh in the manufacturing sector and Rs 10 lakh in the service sector along with 15-35 per cent subsidy for various categories. The central government's FY 19 MSME report, out of total 6.33 crore registered MSMEs in India, 6.30 (99 per cent) are micro-units while only 3.31 lakh are medium enterprises and 0.05 lakh are medium businesses. (FE, NEWS (2019)

In another study we found that India needs 6 to 7 million jobs a year to cease unemployment and global data shows that it is the MSMES including start-ups, which create net new jobs in any country. On the other hand these Start-ups are also the centers of innovation and are a great way to enhance employment

creation in the economy. One of the data from National Sample Survey (NSS) 73rd round will further emphasize on the significance of MSME sector in India as it states that during the period 2015-16, MSME sector has been creating 11.10 crore jobs in the rural and the urban areas across the country. Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs provides employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively. Out of 1109.89 lakhs employees in MSME sector, 844.68 (76%) are male employees and remaining 264.92 lakhs (24%) are females.(Mehta, R.(2019).

In India, capital is scanty and labour bounty. In this regards MSMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment objectives. The MSME sector in India has grown significantly since 1960 – with an average annual growth rate of 4.4% in the number of units and 4.62% in employment. Not only do MSMEs generate the highest employment per capita investment, but they also go a long way in checking rural-urban relocation by providing people living in isolated areas with a sustainable source of employment. (Jose, Tom (2019)

In one study it is found that there is very high positive correlation between cost of fixed investment and employment which stood 0.994 and in export stood 0.847. Moreover the co relation is highest in between production and export which stand 0.978 and co relation is 0.973 between production and employment. It is also observed that positive growth in production, exports and employment. (S. Kishore, (----)

According to researcher Shukla, Rekha (2020) daily wage laborers are suffering the most due to coronavirus. Around 25 to 30 percent of the people in urban areas work on daily wages. The country's 75 million MSMEs are the pillars for growth of the Indian economy, creating around 180 million jobs. It also speeds up the economy by about \$ 1183 billion. Out of this only, 7 million MSMEs are registered.

Worldwide Trend In MSME:

Global trends in classifying the MSMEs show that it has been widely differs across jurisdictions and depends upon the government policies of the country. Although, a comparison of some of the countries revealed that most of them are using number of employees as a variable to define MSMEs, in India,

MSMEs are presently defined based on investment in plant and machinery / equipment. To facilitate ease of doing business, the Government has introduced the new criteria from 1st July 2020 for classification of micro, small and medium enterprises turnover based, which will be useful for MSMEs.

Japan: Japan has SMEs employ 70% of the wage earners and this sector contributes 55% of the value-added.

Thailand: In Thailand SMEs employ 60.7% of the population while contributing 38% to the GDP of the country.

China: The SMEs contribute near about 68% of the exports – in the last 20 years created more SMEs than the total number of SMEs in Europe and the US combined.. (Jose, Tom (2019)

United States –USA has' 30 million SMEs account for nearly two-thirds of net new private sector jobs in recent decades.

Russia: As of March 2019, there were 6.2 million SMEs in Russia employing 15.8 million people. 95% of SMEs were micro enterprises, which accounting for 47 percent of the SME employment and SMEs account for 22 percent of Russia's GDP and 25 percent of total employment.

France: In 2017, there were approximately 2.96 million SMEs in France. One year before, studies have shown that French SMEs employed more than 9 million individuals.

Germany: In 2017 there were approximately 2.45 million Small and Medium-Sized Enterprises (SMEs) in Germany an increase of 360 thousand enterprises when compared with 2011.

Singapore: In Singapore, SMEs account for an estimated two-thirds of all employment and contribute just short of \$200b to the economy. As of April 2019, there were an estimated 220,000 SMEs in Singapore, with the services sector constituting close to 80% of these enterprises in 2019.

South Africa: South Africa's formal, employing SME segment of the economy is much, much smaller than originally thought. Collectively, there are only some 250 000 formal employing micro, small and medium enterprises in South Africa.

Growth And Performance Of MSME In Indian Economy:

In the recent years this sector perform higher growth rate as compare to overall industrial sector of India. During the XI plan this sector recorded a growth rate of 13% on an average. An impressive performance compare to most of the sectors. It is estimated that in terms of value, MSME sector contribute 45% of manufacturing production and around 40% of total export, which increased by 45% of export income of the country.(Syal Sabina, (2015)

The MSME continue over 90% of total enterprises in most of the economies in the world, and are created with highest rate of employment growth and major share of industrial support and export. They contribute very significant amount in GDP also. In India too they play very vital role.

There are some reliable secondary data to understand the present status of MSME in India.

Table 1: Distribution Of MSME (Activity Wise In 2018-19) (In Lakh)

Activity Criteria	Rural	Urban	Total	Share %
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 of MSME govt. of India (2018-19) pdf available at <https://msme.gov.in>. pp 28

It is found from the above data that maximum number of 36% MSMEs was engaged in trade while 31% were found to be in doing manufacturing activities and 33% were in other activities. On the other hand it is stated that out of

633.88 units 324.88 means 51.25% were working in rural areas and 309 working units' means 48.75% were in urban areas.

Table 2: Distribution Of MSME (Category Wise) (In Lakh)

Area/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 of MSME govt. of India (2018-19) pdf available at <https://msme.gov.in>. pp 29

Depicts from table 2 that out of the total number of 633.88 working Enterprises 99% (630.52) were in Micro sector, whereas only 3.31 lakh were working as small Enterprises and Medium units account only 0.05 (0.01%). In other words we can say that 99% working Enterprises have under 25 lakh working capital in manufacturing and 10 lakh working capital in service sector. Investment of capital is very poor for various reasons.

Challenges:

The MSME are often said to grow faster than any large enterprise. It is empirically tested that this sector grows faster means maintain high growth rate but also facing high death rate. Many challenges they face like:

- Absence of adequate and timely banking finance.
- Lack of working capital
- Lack of investment in technology.
- Poor production capacity.
- Ineffective to take market advantage.
- Ease of doing Business.
- Constraints on expansions.
- Non availability of skilled labour at affordable cost.
- Low productivity
- Inadequate and irregular supply of raw material.
- Underutilization of capacity.
- Constraints of infrastructure
- Deficiency of technical and managerial skills.

- Imperfect knowledge of market.etc....

Opportunities:

The opportunities of MSME are enormous due to the following facts:

- Influencing of E Commerce trend.
- Social media platform for marketing.
- Less capital intensive.
- Project profile.
- Machinery procurement.
- Utilization of local resources
- Manpower training
- Technical and managerial training
- Export promotion
- Tool and testing support

Methodology:

This paper is based on secondary data of MSME which is collected from the website of Ministry of Small, Medium and Large Enterprises government of India and Annual report of MSME 2019-20: registered sector.

Discussion:

MSME sector in India creates huge opportunity of employment of Indian Populace. It has been estimated that a lakh rupees of investment in fixed assets in a small scale sector generate employment of four persons. (Syal Sabina, (2015). MSME not only provide large number of employment opportunities at comparatively lower capital cost but also help in Industrialization in rural and backward area, there by helps in reducing regional imbalance, poverty, income disparity and resource management at local level. They are complementary to large industries as ancillary units and contribute in GDP as well. There are more than 6000 items ranging from traditional to high-tech are being manufactured by MSME in India.(Syal Sabina, (2015).

As per the NSSO sample survey 73rd round conducted in the year 2015-16, MSME has been created 11.10 crore jobs.

Table 3: Estimated Employment Of MSME (Category Wise) (In Lakh)

Activity Criteria	Rural	Urban	Total	Share %
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	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

Source: annual report of MSME govt. of India (2018-19) pdf available at <https://msme.gov.in>. pp 33

Table depicts the distribution of employment among different activities. The share of trading was higher (35%) as compare to another two activities. Although distribution of MSME is slight higher in (51%) rural areas but as per employability is concern trading generates more jobs in urban areas 58%. similar trend has been seen in other services which provides more jobs in urban areas as compare to rural. Manufacturing activity was providing more jobs in rural unlike another two.

Table 4: Distribution Of MSME Employment In Rural & Urban Area India

Area/Sector	Micro	Small	Medium	Total	Share
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
ALL	1076.19	31.95	1.75	1109.89	100

Source: annual report of MSME govt. of India (2018-19) pdf available at <https://msme.gov.in>. pp 33

The table shows that Overall MSME generates 55% jobs in urban area as well as 45% jobs in rural areas. Micro enterprises were created almost 97% of total

employment out of which 54.45% of employment generated in urban areas as 45.54% in rural India.

Findings:

The main findings are:

- Micro enterprises were biggest in number with 99% of registered enterprises. This is a dominant segment not only in numbers but also providing employment opportunities (97%) in both rural and urban areas, thus micro enterprises are very important segment for development and employment.
- Registered micro enterprises were slight high 51% in rural areas but they provide more jobs in urban areas (55%) than rural area (45%).
- The sector acts as the instrument of inclusive growth empowering the most vulnerable and marginalized groups.
- In category wise analysis Trading were dominated (35%) as compare to manufacturing and other services.

Conclusion:

The MSME has distinct position in rural areas, 99% MSME were fall in the category of Micro that means they have capability to work under low investment and on the same time they have very high potential to generate more jobs, which is essential for inclusive approach. The developing economy such as India should focus in this sector to achieve sustainable growth. Micro enterprises were doing very well and government should be given pre-eminent role to produce more jobs and offer financial support to make them efficient. Technological up gradation and financial support were always biggest drawback of micro enterprises, this sector has tremendous scope to perform better to support back bone of economy.

Though it has been observed that MSMEs were recognized as an important for employment generation and eradicate disparity of income from the earliest days of Indian Independence, it appears that the objectives of policies stressing the role of MSMEs are not being realized yet. Therefore, we need an entitlement approach that can have likely to compelling all related stakeholders to work on a common national agenda and compound decision under a scientifically structured framework. This perspective demands the identification and analysis of major security threats to the MSMEs, and entrepreneurship at the grass root level.

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