

A Flashback of MSME in India: Role in Employment Generation

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Abstract

Micro, Small and Medium Enterprises (MSME) sector has developed as an enthusiastic and energetic division of the Indian economy over the last few decades. MSME is the second biggest sector after agriculture in terms of employment generation. MSME plays an important role in the economic development of the country. It is the spine of the Indian manufacturing segment and are also called as the engine of economic development. In developing nations, like India, most of the space isn't always appropriate for setting up of huge ventures and such type of lacuna can be minimized by a lesser amount of investment. MSME provides 80% of jobs in the industry, with only 20% of the investment.

The significance of proposed research lies in the fact that the Micro, Small and Medium Enterprises (MSMEs) sector plays a crucial role in India's economic development or can say monetary advancement with help of employment creation and this also contributes in the social development of the country as well.

This paper gives in-depth analysis of MSME sector in India. It focuses on the role of MSME in employment generation. It is divided into two parts i.e. (i) A Flashback of MSME in India, and (ii) Role of MSME in Employment Generation.

Keywords: Enterprise, MSME, Investment, Economic, Employment Generation.

Introduction

Micro, Small and Medium Enterprises (MSMEs) plays a key role in development of indigenous and global economy and also proven fact that it strives towards socio economic condition of its people. To remove regional imbalance and stabilizing growth in all sectors of country, the MSME is only sector identified for boosting and making it as a key driver of growth on which Govt. is emphasizing a lot. Like many other countries India is also taking more steps for stabilising this sector which is need of the time. On the other hand, where big entities like wall mart, Amazon and many others are coming in very organised way but at other side our small-scale entities are getting down and forced to close as they are unorganised and unskilled. By taking many more aspects the government of India has concentrated to boost this core sector that has power to create balance in market economy,

employment creation and creativity in process and making friendly technologically innovative environment.

Objectives of The Study:

To have conceptual analysis of MSME.

To identify the role of MSME in employment generation in India.

Concept of MSME: Indian Perspective:

According to the latest amendment in Micro, Small and Medium Enterprises Development (MSMED) Act, 2006,

basis of defining the MSME has been changed from investment in plant & machinery to annual turnover. The current definition is given in Table 1:

Table 1

Definition of MSME in India

(As Per Latest Amendment on 7th Feb'18 in Micro, Small & Medium Enterprises Development (MSMED) Act,2006)

| Enterprise – On the Basis of Annual Turnover | |
|---|--|
| Description | Turnover (INR) |
| Micro Enterprise | Up to Rs. 5 Crore |
| Small Enterprise | Above Rs, 5 Crore & Up to Rs. 75 Crore |
| Medium Enterprise | Above Rs. 75 Crore & Up to Rs. 250 Crore |

Source: <https://www.hindustan times.com/India-news/govt-changes-definition-of-msmes-bases-it-on-annual-turnover>

Table 1 shows the recent changes done by Union Cabinet in the definition of MSMED Act, 2006. These changes were made by Union Cabinet under the supervision of Finance Minister MR. Arun Jaitley to reform the ease of doing business and to reduce the unnecessary inspections. The main reasons for amendment in the MSME definition are to encourage the MSMEs growth. It will also help in expelling the instabilities related on investment in plant and machinery and equipment. Besides this, the Reserve Bank of India decides to give more extended time period to small businesses who are unable to repay their loan on time. RBI gives them more time before declaring their loans as non-performing assets (NPAs) or bad loans. The central bank raised the payment period from 90 days to 180 days for MSME loans.

Concept Of MSME: Historical View:

After Independence, the first step was taken by Central Government of India about the Industries Development was to arrange a conference in Dec'47 which was in favour of the advancement of small-scale industries. In this conference, the Central Government divided the SSIs (Small-Scale Industries) into three different categories

Which are as below:

Those units which are auxiliary to large-scale industries.

Those units which are engaged in the supply of repair service.

Those units which involved in the manufacturing of finished products.

In brief, SSIs are playing a crucial role since the beginning for the Indian economy in terms of developing employment and exports. Mr. K.T. Shah Former General Secretary of NPC (National Planning Committee) gave the first definition of SSI, but this was not complete in technical terms. Later on, in 1940, Pt. Jawahar Lal Nehru redefine SSI which was more practical and covered most of the dimensions. He used two categories i.e. electrification of the units and employment generating by the units to define SSI. After the independence, the first official definition of SSI given in 1950, which was divided into two categories, i.e. capital investment in the units and employed persons by the units. This definition has been revised over time which is given in below Table 2:

Table 2
Various Definition of MSME in India in Chronological Order

| Year | Investment Limit | Other Condition |
|---|---|--|
| 1951 | Up to Rs. 5 lakhs in fixed assets | Appointing < 50 workers if using power and <100 workers if not using power |
| 1960 | Up to Rs. 5 lakhs in plant & machinery | NIL |
| 1966 | Up to Rs. 7 lakhs in plant & machinery | NIL |
| 1977 | Up to Rs. 10 lakhs in plant & machinery | NIL |
| 1980 | Up to Rs. 20 lakhs in plant & machinery | NIL |
| 1985 | Up to Rs. 35 lakhs in plant & machinery | NIL |
| 1991 | Up to Rs. 60 lakhs in plant & machinery | NIL |
| 1997 | Up to Rs. 3 crores in plant & machinery | NIL |
| 1999 | Up to Rs. 1 crore in plant & machinery | NIL |
| 2006 | Up to Rs. 5 crores in plant & machinery | NIL |
| th Feb'18 (As per the Latest Amendment in MSMED Act,2006) | No Condition | Annual Turnover up to Rs. 250.00 Crore |

Source: <https://msme.gov.in/know-about-msme>

SSIs in India was the mixture of Tiny, Cottage, Traditional, Village and Modern Small Industries, prior to the establishment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. This act is commenced with the aim of development, promotion, providing new schemes and concessions. Sectors like handicrafts, khadi, coir, handloom were neglected before the launched of MSMED. So, in order to remove this barrier and negligence, Government of India implemented Micro, Small and Medium Enterprises Development Act which

was launched on dated 16th June'06 with effect in operation from dated 2nd Oct'06.

The MSME Development Act classifies manufacturing units into medium, small and micro-enterprise depending upon the investment made in plant and machinery. Any unit with input up to 1000 lakhs INR in plant and machinery is considered as medium enterprise while those having investment between 25 lakhs INR to 500 lakhs INR is a small enterprise and those units with the investment with up to 25 lakhs INR is considered as micro enterprise. In the

service sector, any unit with the investment limit up to 10 lakhs INR, between 10-200 lakhs INR and of up to 500 lakhs INR is called as micro, small and medium enterprises respectively. But the Union Cabinet did the latest amendment in (MSMED) Act, 2006 on dated 07th Feb'18 for defining MSMEs on annual turnover criteria which was earlier defined in the terms of investment in plant and machinery criteria.

PROVISION OF MSME ACT,2006:

The MSME Act,2006, established and came in effect from dated 02nd Oct'06 for regulation and development of micro, small and medium enterprises.

This act is made to encourage, create and expand the competitiveness of micro, small and medium industries of India. In this act, facilities are as below:

1. Access to finance facility from banks without collateral requirements.
2. This act explains medium enterprises to make technology upgradation easier.
3. Grievance redressal cell for disputed with buyers through arbitration.
4. To file the memorandum is optional for all the medium enterprises those who renders services.

5. Provides benefits regarding the taxes and octroi.
6. Subsidy in electricity bills of micro, small and medium scale industries.
7. It reinforces the lawful arrangements to check deferred payments to micro and small enterprises.
8. Arrangements for guaranteeing convenient and smooth stream of credit to MSMEs.

MSME: FOREIGN PERSPECTIVE:

In most of the countries, industries have divided into three sectors, i.e.

- a. Large-Scale Industrial Units,
- b. Medium-Scale Industrial Units,
- c. Small-Scale Industrial Units.

There is no single definition for MSME which is globally accepted. Different countries have different criteria for MSME. Some of the criteria are, (i) the number of workers, (ii) Based on Capital Investment, (iii) the management and character of Organisation, and (d) Based on of firm's annual turnover.

In Table 3, Definition of MSME in some selected countries is given.

Table 3
Definitions of SME's in Selected Countries

| Country/Region | Number of Employees | Other Conditions |
|----------------|---|--|
| Australia | Small: less than 100 | ----- |
| Canada | Less than 100 | ----- |
| Belgium | Less than 100 | ----- |
| Denmark | More than 5 and less than 500 | ----- |
| France | 10 to 499 | ----- |
| Germany | Less than 500 | ----- |
| Greece | Less than 50 | ----- |
| Ireland | Less than 500 | ----- |
| Italy | Small: 11-50 Artigiano: less than 10 | Capital: less than Lire 3 billion |
| Netherland | Less than 10 | ----- |
| UK | Mfg.: less than 200 Construction: less than 25 | Trade: (Turnover) Retail: less than £50000 Wholesale: less than £200000 Transport: less than 5 vehicles |

| | | |
|-----------|---|---|
| EU | Less than 50 | Annual turnover: less than 10 million EURO. |
| Malaysia | Less than 75 | Shareholder fund: less than RM 2.5 million |
| Mexico | 15 to 99 | Income / Sale: US\$175000 |
| Singapore | Services: less than 100 | Manufacturing: less than Singapore \$12 million in fixed assets |
| Sweden | Less than 200 | ----- |
| Thailand | Labour Intensive Sector: less than 200 Capital Intensive Sector: less than 100 | ----- |
| Brazil | Less than 100 | ----- |
| Argentina | Medium: Up to 300 | Annual Sales: Up to US\$18 million Production Assets: Up to US\$10 million |
| Japan | Medium: Up to 300 | Capital: Up to ¥100 million |
| U.S. A | Up to 500 | ----- |
| Indonesia | Up to 20 | ----- |
| Thailand | Small: Up to 49 | Capital: less than \$1.17 million |
| Vietnam | Small: Up to 29 | Capital: less than \$65 thousand |
| China | Small: 50-100 | ----- |

Source: (i)India: The State Development of Small and Medium Enterprises -2005, Institute of Small Enterprises and Development (ISED)

(ii)Soundarapandian,M. (2009), Economic Reforms and Small -Scale Industries, Concept Publishing Company,New Delhi,pp9 -1.

Note: *These countries were using different definitions for SSIs, but since 6 May 2003, the European Union is found to be using the common definition for all EU member countries.

Review of Literature:

The reason of the literature review is to urge a few information from the existing works that have just been done in a particular area regarding the research. A few studies are discussed below:

Chandraiah & Vani (2014) in their article entitled “The Prospects & Problems of MSMEs Sector in India- An Analytical Study”, in their study author, highlight the prospects and problems of the MSME sector. This study is based on the Indian history and other different segments which will help to improve the rural economy's standard. MSME in India was bound by the government's strict policy regarding export/import of goods. Due to the localisation of their trading location, this is the hurdle of comes between the growth of MSME in India. Indian Government should modify its trade policy for MSME.1

Garg (2014), in his article entitled “Role of MSME in Economic Development”, the author highlights all the barriers which are facing by Indian MSME. This study helps to identify the gap between the success of MSME even after various steps has already taken. Even after interference by the government for the growth of MSME, still there has a gap in finance, and operational sector in MSME remain. So, unless this gap will not be covered,

these kinds of barriers will not remove which comes between the success of MSME.2

Bouazza, Ardjouman & Abada (2015), in their article entitled “Establishing the Factors Affecting the Growth of Small and Medium-Sized Enterprises in Algeria”, in this study, the author highlights all those factors which are affecting the growth of MSME. Both outer and inner factors are included in this study. Outer factors like government policies and procedures, access to credit etc. and internal factors like training deficiency, unskilled labours, lack of promotional techniques used by MSME staff become very crucial which affect the growth of MSME units. This study concludes that for the smooth functioning of MSME units and its continuous growth, both external, as well as internal factors get equal weightage.3

Singh and Kumar (2017), in his article entitled “Working Capital Requirements of Manufacturing SMEs: Evidence from Emerging Economy” in this study, author found that financial leverage, operating cash flow, sales growth, profitability, etc. all such are the main features of working capital needs for SME's in India. Through this study, knew that all these drivers such as cash flow provided from operating activities, leverage on equity, growth, size and

age of the company would directly affect the working capital need in SME's in India.4

Upadhyay, Jahanyan and Dan (2011), in their article entitled "Factors influencing ERP implementation in Indian Manufacturing Organisations: A Study of Micro, Small and Medium-Scale Enterprises", this study was conducted on the investigation of Enterprise Resource Planning (ERP) implementation achievement factors in reference to India MSMEs (Micro, Small and Medium Scale Enterprises). According to this study, the author found that four factors are the most important factors which directly influenced the ERP Implementation process in MSME of India. These four factors organisational climate, technical perspective, project execution and product perspective. Proper Controlling over all these factors in every MSME in India may provide smoothness in functioning and growth in MSME in India. 5

Role of Msme In Employment Generation:

The MSME in India are playing an important role in generating and providing huge number of employment eventuality at a relatively low cost of investment than large enterprises.

In the below Table 4, the No. of MSMEs in India and Employment generated through MSMEs from the year 1990-91 to 2015-16 is given. This is clear that the growth percentage of no. of MSME and the Employment generation wise is increasing every year. It is showing that around 11.10 crore jobs have been generated by the MSME sector according to the study conducted in 2015-16. Therefore, employment generated till the latest survey which is up to 2015-16 is 1109 lakhs as reported in the annual report of MSME 2018-19 and according to the projected figures of the year 2010-11 is 965.15 lakhs reported in the annual report 2008-09. The total difference in employment generated through MSME sector in both these reports or in these five years is approx. 144.74 lakhs, i.e. 15.00% growth showing in these five years. And number of MSME in India reported in annual report 2010-11 & in 2018-19 is 428.73 lakhs and 633.88 lakhs (Table 4) respectively. Therefore, total no. of MSME units increased in last five years is approx. 205.15 lakhs enterprises i.e. 47.85% growth rate showing in last 5 years.

Table 4

MSME's Performance: Employment Generation (From 1990-91 to 2015-16)

| S. No. | Year | Total MSMEs (In Lakhs) | Employment (In Lakhs) |
|--------|----------------------|------------------------|-----------------------|
| 1 | 1990-91 | 67.87 | 158.34 |
| 2 | 1991-92 | 70.63 (+4.07%) | 165.99 (+4.83%) |
| 3 | 1992-93 | 73.51 (+4.07%) | 174.84 (+5.33%) |
| 4 | 1993-94 | 76.49 (+4.07%) | 182.64 (+4.46) |
| 5 | 1994-95 | 79.60 (+4.07) | 191.40 (+4.79%) |
| 6 | 1995-96 | 82.84 (+4.07%) | 197.93 (+3.42%) |
| 7 | 2000-01 | 101.10 (+22.04%) | 238.73 (+20.61%) |
| 8 | 2005-06 | 123.42 (+22.08%) | 294.91 (+23.53%) |
| 9 | 2010-11 [#] | 428.73 (+247.37%) | 965.15 (+227.27%) |
| 10 | 2015-16 | 633.88 (+47.85) | 1109.89 (15.00%) |

*The figures showing in bracket is the growth rate as compared to previous year compiled from various annual reports from 2008-09 to 2018-19.

[#]Projected

Source: Annual Report 2008-09, Ministry of MSME, Government of India, pp 33.

Annual Report 2018-19, Ministry of MSME, Government of India, pp 28-32.

QUANTUM OF MSME IN INDIA:

As per the NSS (National Sample Survey) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period of 2015-16, there were 633.88 lakhs unincorporated non-agricultures MSMEs in the country involved in various economic activities out of which 196.65 lakhs of enterprises are in Manufacturing Sector, 0.03 lakhs in Non-captive Electricity Generation and Transmission, 230.35 lakhs is in Trade Sector and 206.85 lakhs is in Other Services excluding those MSMEs registered under (a) Section 2m (i) and 2m (ii) of the Factories Act, 1948, (b) Companies Act, 1956 and (c) Construction activities comes under Section F of National Industrial Classification (NIC)

2008.

MSME sector has generated almost 11.10 crore jobs as per the survey conducted during the year 2015-16 by NSS (National Sample Survey) 73rd round. MSMEs generated approx. 360.41 lakhs jobs in the Manufacturing sector, approx. 387.18 lakhs jobs in Trade, approx. 362.22 lakhs in Other Services and 0.07 lakhs in Non-captive Electricity Generation and Transmission. The latest scenario of Number of MSMEs and Estimated Employment Generation in MSME Sector in India (broad activity category wise) during the year 2015-16 has been discussed in detail in Table 5:

Table 5

Number of MSMEs and Estimated Employment Generation in MSME Sector in India (Broad Activity Category Wise 2015-16)

| Category | Rural | | Urban | | Total | | Share (%) | |
|----------------|---------------|-----------------------|---------------|-----------------------|---------------|-----------------------|-------------|-----------------------|
| | No. of MSME | Employment Generation | No. of MSME | Employment Generation | No. of MSME | Employment Generation | No. of MSME | Employment Generation |
| Manufacturing | 114.14 | 186.56 | 82.50 | 173.86 | 196.65 | 360.41 | 31 | 32.00 |
| Trade | 108.71 | 160.64 | 121.64 | 226.54 | 230.35 | 387.18 | 36 | 35.00 |
| Other Services | 102.00 | 150.53 | 104.85 | 211.69 | 206.85 | 362.22 | 33 | 33.00 |
| Electricity | 0.03 | 0.06 | 0.01 | 0.02 | 0.03 | 0.07 | 0 | 0 |
| Total | 324.88 | 497.78 | 309.00 | 612.10 | 633.88 | 1109.89 | 100 | 100 |

Source: Annual Report 2018-19, Ministry of MSME, Government of India, pp 28-32.

Conclusion:

In this paper, the definition of MSMEs across the world have been discussed. There are many definitions of MSMEs have been seen based on different criteria country by country, and it has been redefined over the time. Some countries defined MSME based on capital investment, and some country defines on the ground of the number of employees working in their firm whereas some define on the ground of annual turnover of the firm. In India, the definition of MSME has been changed many times from 1951 to 2006. But in EU member countries, the definition of MSME is same since 2003. We come to conclude, the MSME sector plays an important role in employment generation in India. According to a survey conducting in 2017, MSME contributes around 31% to the nation's GDP, 34% shares of the overall manufacturing sector and 45% shares of the overall export output. It is the backbone of the Indian economy. Looking to its importance, government must try to facilitate MSME to grow at faster rate. The efforts so far done to exaggerate is not sufficient.

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