

Role of MSME Sector in Indian Economy: A Study with special reference to Gujarat

Dr. Sarika Srivastava

Assistant Professor
Graduate School of Management Studies
Gujarat Technological University, India

Abstract

The Micro, Small and Medium enterprises (MSME) sector has emerged as a dynamic sector of the Indian economy and an essential driver of economic process. It considerably helps in developing entrepreneurship and generates second largest employment prospects. With a vast network of sixty-three million three hundred eighty thousand enterprises, more than forty per cent of exports, over twenty-eight per cent of the Gross Domestic Product and generating employment for about one hundred eleven million people, the MSME sector contributes in a significant way to the development of the Indian economy. The world economy is growing at a slower rate thus a lot of emphasis is required on developing MSME sector to extend employment opportunities specifically for young people. Gujarat is known as a land of entrepreneurs and contribution of MSME sector cannot be ignored while discussing the key issue of employment generation. Gujarat has also achieved the distinction of being one of the most industrially developed states. It has five per cent of the total Indian population and contributes about a quarter of India's products exports. The industrial sector of the state comprises of over eight hundred giant industries and six hundred three thousand Micro, Small and Medium Enterprises (MSME) which give employment to three million eight hundred fifty-one thousand people of the country. This research paper focuses on the contribution of MSME sector in Indian economy and makes clear the importance of Gujarat as a state in fostering entrepreneurship through MSME sector.

Keywords: MSME, Entrepreneurship, Indian Economy, Gujarat

Introduction

Overview of MSME Sector

Micro, Small and Medium Enterprises (MSMEs) are amongst the powerful sources of employment generation, economic development and doing innovation. With a vast network of about sixty-three million three hundred eighty thousand enterprises, about forty-five per cent contribution in manufacturing output, more than forty per cent of exports, over twenty-eight per cent of the Gross Domestic Product and creating employment for about one hundred eleven million people, the MSME sector is the growth engine of the national economy. Employment in MSME sector stands next to agricultural sector in terms of volume. Different kinds of products and services are produced by MSMEs with adoption of latest technology so the market size of

business units also varies from handmade products to hi-tech products. The National Manufacturing Policy forecasted to raise the share of manufacturing sector in GDP from sixteen per cent at present to twenty-five per cent by the end of 2022 to provide momentum to the manufacturing sector.

Revised Classification of Micro, Small & Medium Enterprises (MSME)

The Government of India has introduced new MSME definition in accordance with Aatmanirbhar Bharat Package and it came into effect from 1st July, 2020. In revised guidelines, both manufacturing and service sector shall have the same limit of investment and turnover (which is newly introduced in the definition).

Table No. 1: Revised Classification of MSMEs	
Manufacturing and Service Sector	
Types of Enterprises	Limit of Investment in Plant & Machinery or Equipments and Limit of Turnover
Micro Enterprises	Investment < 1 Crore and Turnover < 5 Crore
Small Enterprises	Investment < 10 Crore and Turnover < 50 Crore
Medium Enterprises	Investment < 50 Crore and Turnover < 250 Crore
Source: https://msme.gov.in/sites/default/files/MSME_gazette_of_india_0.pdf	

Functioning of MSME Sector in India

The Ministry of MSME runs various schemes aimed at financial assistance, Technology assistance and upgradation, skill development and training, infrastructure development, enhancing competitiveness and Market assistance of MSMEs. A number of statutory and non-statutory bodies work under the aegis of the Ministry of MSME as mentioned below-

Khadi and Village Industries Commission (KVIC)

Khadi and Village Industries Commission (KVIC) is a statutory organization under the aegis of the Ministry of MSME with the role of promoting the production and sale of Khadi. With a vast network of 2632 institutions and over 4.95 Lakh people, KVIC also supports 80 percent of women artisans. The economic objective of KVIC includes producing saleable articles while social objective adds providing employment in rural areas. The wider objective of the organization is creating self-reliance amongst people and building up a strong rural community spirit.

Coir Board

India, being the largest coir producer in the world, produces more than 80 % of the total world production of coir fibre. The coir sector in India involves households, co-operatives, NGOs, manufacturers and exporters. Beautiful artefacts, handicrafts and utility products from coconut husks are produced by this sector. The coir industry employs about 7.30 lakh persons belonging to the economically weaker sections of society and 80% of them

are women.

The National Small Industries Corporation Limited (NSIC)

Under ministry of MSME, The National Small Industries Corporation Ltd. (NSIC) is an ISO 9001-2015 certified Government of India Enterprise and works for expansion of micro, small and medium units in the country. NSIC is a profit-making dividend paying company and works on the mission to promote and support MSME by providing integrated support services encompassing, Marketing, Finance, Technology and other Services.

Mahatma Gandhi Institute for Rural Industrialisation

The Jannalal Bajaj Central Research Institute (JBCRI), Wardha was revamped with the help of IIT, Delhi in October 2008 and called Mahatma Gandhi Institute for Rural Industrialization (MGIRI). The main objectives of the institute comprise acceleration of rural industrialization for sustainable village economy, innovation through pilot study/field trials, R&D for alternative technology using local resources, attract professionals and experts to Gram Swaraj and empower traditional artisans.

National Institute for Micro, Small and Medium Enterprises, (NI-MSME)

The primary objective of NI-MSME was to be the trainer of trainers but now it has widened its extent of activities to consultancy, research, extension and information services. The institute has identified thrust areas like NGO Networking Quality Management Services

Entrepreneurship Development, Environment Concerns, Technology Up-gradation & Transfer, Policy Issues, Cluster Development, Management Consultancy, Financial Services, and Information Services in line with the national objective of economic development through industrialization.

Literature Review:

A report titled “MSME Growth Driver of Indian Economy” published by CII and Resurgent India (2019) mentioned that over 1,00,000 SMEs have shown 13.9% increase in net jobs created in the MSME sector in last four years. Gujarat, Maharashtra and Telangana have been the largest job generators.

A report titled “Making Indian MSMEs globally competitive” published by KPMG (September 2019) mentioned that MSME sector is a main driver of economy of India with a network of sixty-three million entities. It generates employment for about one hundred eleven million people and manufactures more than seven thousand five hundred products with a share of around forty-eight per cent in the country's total export.

Yogesh C. Joshi and Kaushal Kishore (2018) found in their research that considerable proportion of MSMEs are practising energy conservation but a lot of efforts are required to increase the number of units practising the model of energy conservation.

Nihar Ranjan Jena and Lina R Thatte (2018) analyzed that the difference in performance of the MSME sector in different states existed due to the differences in the presence or absence of adequate enabling factors like labour force, economic infrastructure, regulatory framework, size of GSDP and density of MSME clusters etc. and found that Maharashtra was the leader in terms of performance of the MSME sector which was closely followed by Gujarat, Tamilnadu, Andhra Pradesh, Uttar Pradesh, West Bengal and Kerala.

Papiya Manna and Dr. Tapas Mistri (September 2017) analyzed in their research that MSMEs are increasing year by year and its share in national or state GDP has also shown increasing trend with some fluctuations.

Research Methodology:

Rationale Of The Study

From the literature review it was found that many researchers have conducted research on related areas of MSME sector but no relevant study has been done specifically to understand the importance of Gujarat's MSME sector. Gujarat is known as the growth engine of Indian economy and it is not only due to large

manufacturing units but also has a significant contribution of MSME sector. This research work has been carried out to fill this gap.

Research Design

Research Design of present study is descriptive in nature. The researcher has used secondary information for the purpose of analysis and conclusion.

Research Questions

What is the scenario of the Micro, Small and Medium enterprises (MSME) sector in India?

How MSME sector of Gujarat is contributing in Indian GDP?

Research Objectives

To know about the current scenario of MSME sector of India and functioning of ministry of MSME.

To understand the role of MSME sector in economic growth of India.

To study the importance of Gujarat in the development of MSME sector.

To analyze the contribution of MSME sector of Gujarat in Indian economy.

Data Collection

Current study is based on secondary data. Several reports from authentic sources have been studied to know the current scenario of MSME sector. Other secondary data have been collected from various published sources which represents performance of MSME at state level and national level. Present research is mainly based on the statistics available on annual report (2018-19) of MSME published by Government of India, report published by Indian Brand Equity Foundation (IBEF) in December 2019 and report of expert committee on MSME published by Reserve Bank of India (RBI) in July 2019. Facts and figures given in these reports have been considered for analysis purpose.

Data Analysis:

Overview Of Performance Of The Indian Msme Sector

The MSME sector is considered as an important driver of economic growth. As MSME sector has significant employment potential at very low capital cost, this gives competitive edge to small scale units of the country. The Small and Medium Enterprises (SMEs) play key roles in job creation and economic growth especially in developing countries as it account for about ninety per cent of businesses and more than fifty per cent of employment

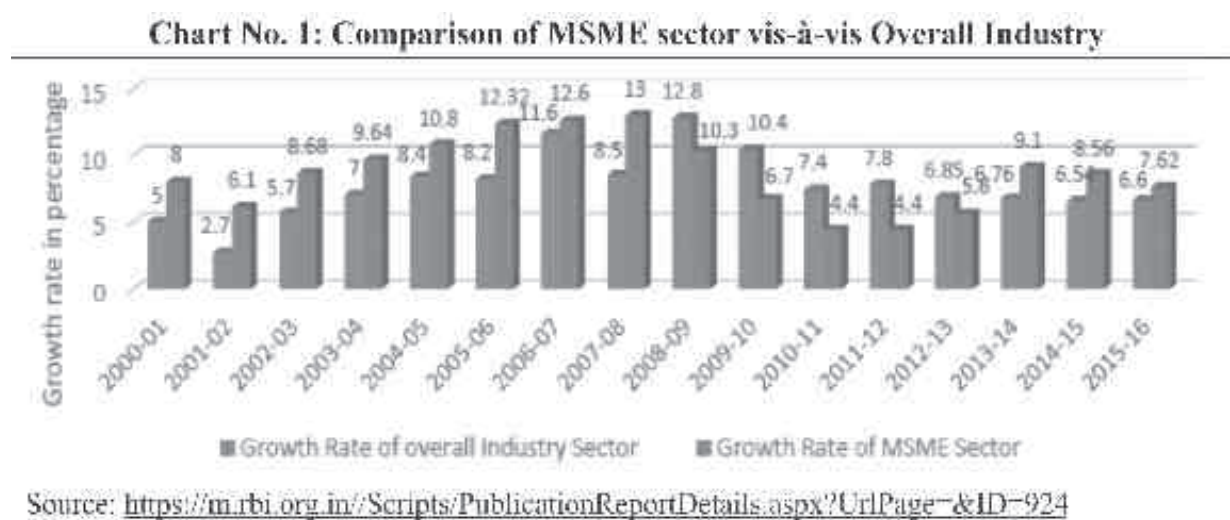
worldwide.

Growth Pattern of MSMEs in India

India is one of the highest increasing economies of the world. In the last ten years, MSME sector has shown remarkable progress in terms of various parameters like production, number of units, employment and exports. This sector has immense potential to contribute much more in Indian economy provided to get the right set of support systems.

Growth rate of MSME Sector in comparison with the Overall Industrial Sector

It must also be studied that whether the MSMEs are growing in line with the overall industrial growth or not. The growth rate of MSME sector in comparison with the overall industrial sector has been depicted from 2000-01 to 2015-16 in Chart no.1. The MSMEs have recorded a higher growth rate than the overall growth of industrial sector in many years which shows the importance of MSME sector in economic development of the nation.



Contribution of Msmes in Indian Economy

According to the report of the expert committee on Micro, Small and Medium Enterprises (MSME) published by Reserve of India (RBI) on 25th June 2019, MSMEs are widening their domain across sectors of the economy, producing varied range of products and services to meet demands of domestic as well as international markets. There are more than sixty thousand products, ranging from traditional items to the items having advance technology, which are being manufactured by the MSMEs in India.

Contribution of MSMEs in Country's Economy at Current Price

The contribution of MSME sector in the country's economy at current prices from 2011-12 to 2016-17 is given in Table No. 2. From 2011-12 to 2016-17, the contribution of the MSMEs in Gross Domestic Product (GDP) of the country remained almost similar. 30% is a significant number in terms of sharing GDP. There are no major fluctuations observed in recent years.

Table No. 2: Contribution of MSMEs in Country's Economy at Current Price

(Figures in Rs. Crores adjusted for FISIM* at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9914013	30.40
2013-14	3385922	12.25	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566046	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

Estimated Number of MSMEs (Activity Wise) in the Country

There were 633.88 lakh unincorporated non-agriculture MSMEs in the country engaged in different economic

activities as per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office (NSSO), MoSPI, during the period 2015-16. Table No. 3 shows the distribution of MSMEs category wise.

Table No. 3: Estimated Number of MSMEs (Activity Wise) in the Country

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
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	0
All	324.88	309.00	633.88	100

*Non-captive electricity generation and transmission

Source: Annual Report of Ministry of MSME 2018-19

Estimated Employment in MSME Sector (Broad Activity Category Wise)

Employment is very important factor which needs to be addressed by MSME segment. It can be seen in the given

table that MSME sector is contributing in all categories. Overall 32% share of employment is in manufacturing, 35% in trade and 33% share is in services sector. Both rural and urban population is serving the nation through small scale industries.

Table No. 4: Estimated Employment in MSME Sector (Broad Activity Category Wise)

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
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	0
All	497.78	612.10	1109.89	100

*Non-captive electricity generation and transmission

Source: Annual Report of Ministry of MSME 2018-19

Comparison of MSME export to total exports

It would be interesting to know the facts and figures related to share of MSME sector export in total exports of India to foreign countries. As per the information available on RBI website, export of MSME was USD 127992 million in 2012-13 while overall exports was USD 300400 million so it was 43% share of MSME in total exports. In 2013-14

exports by MSME were higher than previous year but share was less than 43%. It is very clear that since 2012-13, the MSME sector has maintained the continuity of having more than 42% share in overall exports from the country and now it is nearly 50% contribution of MSMEs in export.

Year	Total Exports	Exports by MSME	Share of MSME Exports (%)
2012-13	300400	127992	43
2013-14	314415	133313	42
2014-15	310352	138896	45
2015-16	262291	130768	50
2016-17	275852	137068	50
2017-18	303376	147390	49

Source: <https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=924>

Overview Of Gujarat Economy

About Gujarat

Geographical location of Gujarat is strategic advantage for the development of state economy. 1600 km longest coastline at western coast of India has robust facilitating infrastructure in terms of well-developed major port at Kandla and 41 other ports. Economy of any state cannot boost if it does not have global linkage and fortunately Gujarat has strong air connectivity with rest of the world. One international airport and 18 domestic airports of Gujarat help in managing international trading activities.

Vibrant Gujarat is a highly successful business model which is organized in every alternate year to promote export – import and other joint projects in various spheres among partner countries. Food processing & Textiles sector and Chemical, Power, Oil and Gas are major industries. Apart from that Gujarat is also known in the world for Pharmaceuticals industry. Government of Gujarat also promotes tourism sector to generate huge revenue. Automobile, IT, Gems and Jewellery, Minerals and Dairy sector also have significant contribution in the economy of Gujarat.

Gujarat's Contribution to Indian Economy (2017-18)

Parameter	Gujarat	India
GSDP as a percentage of all states' GSDP	7.7	100.0
GSDP Growth Rate (%)	12.97	10.80
Per Capita GSDP (US\$)	2,654	17,503

Source: IBEF report on Gujarat State (December 2019) available on www.ibef.org

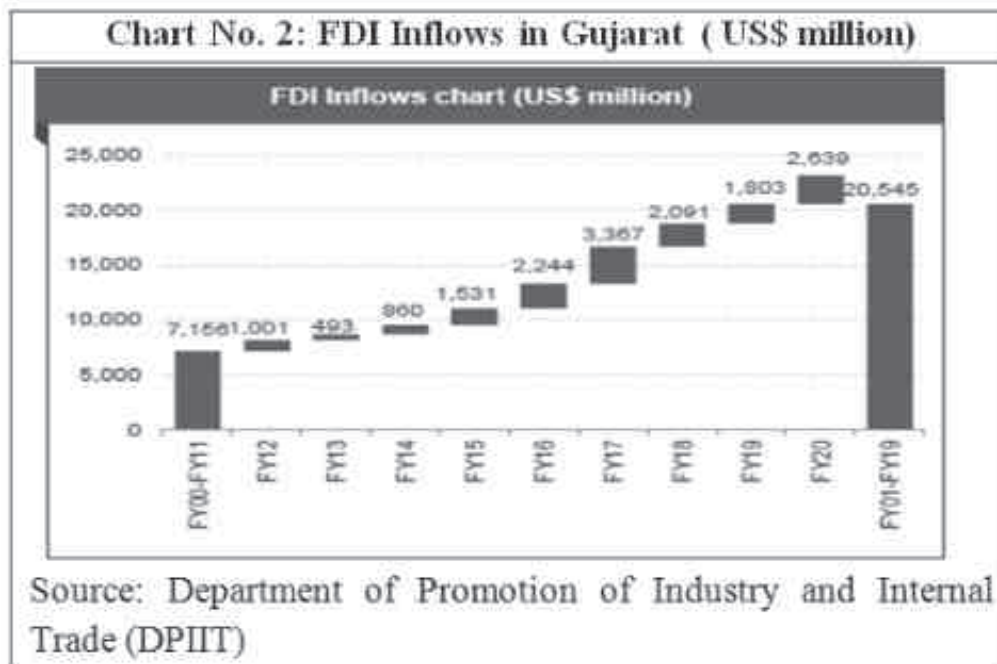
Industrial Development & Economic Growth in Gujarat

Table No. 7: Industrial Development & Economic Growth in Gujarat	
Parameters	Status of Gujarat
Average Annual Gross State Domestic Product (GSDP) from 2011-12 to 2019-20	Rs 17.01 trillion (US\$ 243.45 billion) at a CAGR of 13.53 %
Total exports from the state during 2018-19	US\$ 67,401 million
Exports of major agriculture commodities from Gujarat in 2018-19	US\$ 3.59 billion
Major Export Item	80 % of India's diamonds
Power generation capacity	34,544.67 MW
Total area covered under SEZs	First rank in India
Clusters and Special Economic Zones (SEZs)	106 product clusters and 60 SEZs
Refineries (Petroleum Capital of India)	4 refineries with a combined capacity of 101.9 MMTPA
Largest Produced Items	Processed Diamonds with 72% share and Denim with 70 % share
Source: https://www.ibef.org/states/gujarat-presentation	

Major Initiatives Taken by the Government to Promote Gujarat as an Investment Destination

Table No. 8: Initiatives Taken by the Government to Promote Gujarat	
S. No.	Initiatives
1	High-Speed Rail passenger corridor from Ahmedabad to Mumbai with the cooperation of the Government of Japan.
2	Large scale investment is expected in Gujarat as part of the US\$ 90 billion Delhi-Mumbai Industrial Corridor (DMIC).
3	Allocation of Rs 1559 crore (US\$ 223.06 million) to Mukhya Mantri Gram Sadak Yojana in the state Budget 2019-20.
4	Allocation of US\$ 824.63 million to the Agriculture, Cooperation and allied activities sector.
5	Incentive program for the Industries (General) to attract investments in the manufacturing sector to create more employment opportunities.
6	79 linked Agricultural Produce Market Committees (APMCs) with the National Agriculture Market (eNAM).
7	Allocation of US\$ 2.57 billion to the Energy, Industry & Minerals.
8	Incentive program for the Industries (General) to attract investments in the manufacturing sector to create more employment opportunities.
Source: https://www.ibef.org/states/gujarat-presentation	

FDI Inflows in Gujarat



According to the report of Department for Promotion of Industry & Internal Trade (DPIIT), FDI inflows was US\$ 7.156 million in FY 2000- FY 2011 which has reached up to US\$ 20.545 million in FY 2001 – FY 2019. The total share of Gujarat in the overall Foreign Direct Investment (FDI) inflows in India is about five per cent.

Overview Of Performance Of The Gujarat Msme Sector

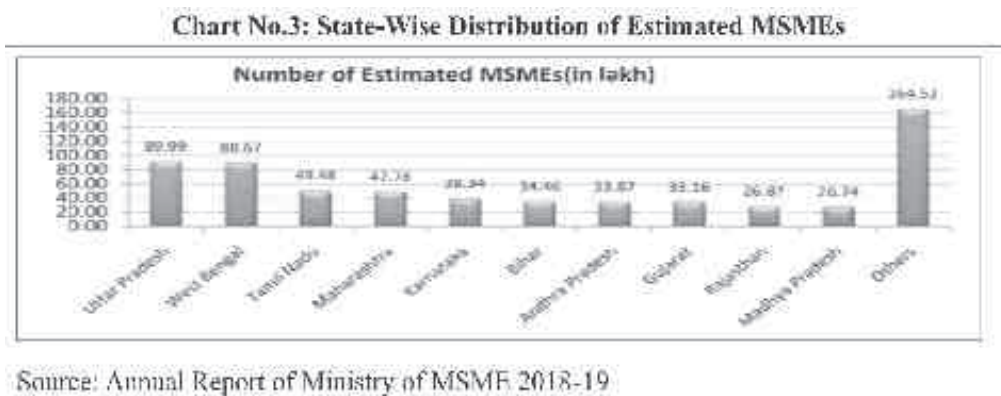
Overview of MSME Sector of Gujarat

Micro, Small and Medium Enterprises have played highly significant role in overall development of the state. They have proved to be a major contributor to the economy of the state in terms of entrepreneurship development and employment generation. MSME Gujarat is playing an

essential role in providing opportunities and employment in the areas of Engineering, Textile, Chemical products, Plastic, Food Processing, Ceramic, Pharmaceutical, etc.

State-Wise Distribution of Estimated MSMEs

74% of the total estimated numbers of MSMEs in the country are located mostly in ten states. The available information depicts that Uttar Pradesh (UP) has highest number of MSMEs which is very closely followed by West Bengal. Tamilnadu and Maharashtra both have nearly same number of micro, small and medium scale units while Karnataka comes on fifth rank in terms of number of MSMEs. Gujarat has 33.16 lakhs established MSMEs while 164.52 lakh units are spreaded in other states the country.



Recent Initiatives Taken By the Government of Gujarat to Promote MSME Sector

Government of Gujarat is very actively promoting small & medium size businesses through various schemes of granting financial and technical support, establishing incubation centres, supporting budding entrepreneurs, providing guidance to young students who are initiating start-ups, introducing courses in entrepreneurship, encouraging internships and summer internship projects in MSMEs, organizing awareness programmes of Government schemes to assist MSME sector.

Gujarat government has set a target to have 30,000 MW renewable energy capacities by 2022 end and has launched an incentive scheme for the MSMEs to generate electricity by setting up solar plants and sell excess power to the electricity board of state.

The Gujarat government in February 2020 signed a MoU with State Bank of India (SBI) to facilitate fast approval of loans to entrepreneurs in the MSME sector. This is in line with the objective of central government to move up in the ranking of Ease of Doing Business.

Conclusion:

It is very clear from the analysis that Micro, Small and Medium Enterprise (MSME) sector has emerged as a very important segment which is contributing significantly to employment generation, innovation, exports, and inclusive growth of the economy. The reason is that the MSME sector has the ability to make cost effective products and government is also providing full support to boost up this sector. Currently MSME's share in national GDP is about 29% and is projected to touch 50% by 2024. With its inherent strengths, powerful infrastructure and strong positioning at national and international level, Gujarat has very clear vision for developing MSME sector and there is no doubt in accepting the fact that Gujarat also has a status of favoured global investment destination. Conductive business environment with ample growth opportunities, good infrastructural facilities, better road connectivity, largest coastline, supportive government initiatives and increasing ease of doing business ranking makes Gujarat a promising state in the country to ensure the development of MSME sector in line with the economic development policies of central government. It can be said that MSME sector needs more attention like any other large industrial units and it would certainly help India to become economic powerful nation among all countries of the world.

References:

- Gujarat – The Growth Engine of India (December 2019) report published India Brand Equity Foundation retrieved from <https://www.ibef.org/download/Gujarat-December-20191.pdf>
- <https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=924>
- https://msme.gov.in/sites/default/files/MSME_gazette_of_india_0.pdf
- <https://www.ibef.org/states/gujarat.aspx>
- <https://www.ibef.org/uploads/states/infogrphics/large/Gujarat-Infographic-December-2019.pdf>
- Making Indian MSMEs globally competitive (September 2019) published by KPMG retrieved from <http://164.100.117.97/WriteReadData/userfiles/MSME.pdf>
- MSME Annual Report 2018-19 retrieved from <https://msme.gov.in/sites/default/files/Annualrprt.pdf>
- MSME Growth Driver of Indian Economy published by CII and Resurgent India (2019) on Delhi SME Finance Summit retrieved from https://www.resurgentindia.com/pro_bfloors/services_img/pdf_teders/1145452775MSME%20Growth%20Driver%20of%20Indian%20Economy.pdf
- Nihar Ranjan Jena and Lina R Thatte (2018), “Performance of the Micro, Small and Medium enterprises (MSME) manufacturing sector in selected states in India: The concept of MSME manufacturing business facilitator (MSME – MBF) Index”, 'Academy of Entrepreneurship Journal', Volume 24 Issue 1, PP 1-22
- Papiya Manna and Dr. Tapas Mistri (September 2017), “Status of Micro, small and Medium Enterprises (MSME) in India: A Regional Analysis”, 'IOSR Journal of Humanities and Social Science (IOSR – JHSS)', Volume 22, Issue 9, Ver. 13, PP 72-82
- SME Cluster series Vadodara 2016 published in India by Dun & Bradstreet Information Services India Pvt. Ltd. Retrieved from https://www.dnb.co.in/Publications/SME_Cluster_Series_2016_Vadodara/SME_Cluster_Series_2016_Vadodara.pdf
- The Gujarat Vision: Making MSMEs Globally Competitive (2010) published by PwC in

association with CII https://www.pwc.in/assets/pdfs/publications-2010/msme_report.pdf

Yogesh C. Joshi and Kaushal Kishore (2018), “Do MSMEs practice energy conservation principle: A case of

Gujarat”, 'Journal of Energy and Management', PP 39-50.