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Micro, Small and Medium Enterprise Sector in India

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Abstract: *The Micro, Small and Medium Enterprises have been termed as an engine of growth for an economy. The health of this sector directly determines the growth and economic development of a country. The present article deals with an overview of micro, small and medium enterprises in India. An overview of this sector has been presented to highlight the development and significance of this sector in the Indian economy. The economic contribution of this sector has been represented descriptively with the help of graphs and diagrams.*

Keywords: *Micro Enterprises, Small Enterprises, Medium Enterprises.*

I. INTRODUCTION

The rapid industrialization and growth in the economy have introduced a new value system that leads to recognition of Micro, Small and Medium enterprises. A new role has been assigned to the development of entrepreneurship, industrial development and employment generation (Rai, S.K. and Sahay, A. 2004). This sector is characterized by low investment requirement, operational flexibility, location wise mobility, and import substitution. The contribution of micro, small and medium enterprises (MSMEs) sector to manufacturing output, employment and exports of the country is very significant. The MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country. It is the second largest employer of human resources after agriculture in India. The contribution of this sector in employment was 695.38 lakh persons in 298.08 lakh units in the year 2010. In the same year the sector had a production and fixed investment of 693835 crore and 982919 crore respective. The sector includes 26.61 Lakhs women-led enterprises comprise of 7.4% of the enterprises and 2 crores of rural enterprises, comprise around 55.34% of the total. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. These figures are too important and highlighted the need to enhance the competencies of this sector.

The MSME sector can be further classified into manufacturing and services. With more than 6000 products ranging from hand-made products to high precision machine parts, which are being manufactured by this sector in addition to provide wide range of services catering to both industrial and consumer markets. MSMEs involved in manufacturing activities provide supply of raw material/goods to the local large enterprises, global large enterprises or local consumer markets. Food processing and beverages is the key manufacturing industry with in this sector accounting for 14.26%. In line with that wearing apparel contributes to 13.67 % of the total products. Further, a large number of small and medium enterprises in the food and textile industries produce goods for export and serve large global supply chains or global consumer markets. The main reasons are the contribution of these enterprises to economic development and employment generation, which have attracted the attention of researchers and policy makers. It is therefore very pertinent and important to study about growth and contribution of this sector.

II. LITERATURE REVIEW

The liberalization, in the beginning brought fear of death but later on resulted in an explosion of new entrepreneurial interest in the country which was supported by policy initiatives (Rai, S.K. and Sahay, A. 2004). It also demanded innovation, and effective strategic planning to exploit tremendous opportunities (Anderson M. 1999). The role of entrepreneurship has extended beyond increasing per capita output and income; now it has been working as a catalytic force of initiating and constituting change in the psyche of people and in the structure of the society and business (Rai, S.K. and Sahay, A. 2004). Entrepreneurship has been playing a very important role in the economic development (Roman S. 2001) and acts as an engine of growth and wheel that pedal the vehicle of economic development (Josiane, C. 1998). It has been recognized because of its importance in the area of job creation, revenue generation, poverty alleviation and wealth creation (Wennekers, S. and Thurik, R. 1999 and). In other words, entrepreneurship makes development possible and enhances the standard of living not only of the entrepreneur but also of the nation (Smallbone, D. and Welter, F. 2006). Entrepreneurship is strongly linked to micro, small and medium sized enterprises (MSMEs), which are the main developing force of the developed market economies. Micro, Small and Medium enterprises have more and more become recognized as an important factor in determining the dynamics of an economy. The health of this sector is very important for the overall economic strength of an economy. The MSME sector has often been termed as the ‘engine of growth’ for developing economies (Ravi, S. 2009). The small enterprise sector has continued to contribute greatly in creating jobs in large scale and helped reduce inter-regional and rural-urban disparities in growth (Das, K. 2008).

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III. AN OVERVIEW OF MICRO, SMALL AND MEDIUM ENTERPRISE SECTOR

Micro, small and medium enterprises (MSMEs) can be defined in a number of ways, varying from country to country. In Indian context, micro, small and medium enterprises as per the **MSME Development Act, 2006** are defined on the basis of their investment in plant and machinery (for manufacturing enterprise) and on equipments for enterprises providing or rendering services.

According to the Micro, Small and Medium Enterprises (MSMEs) Development Act 2006, the classification of these enterprises are as:

Table: 1 The classification of MSME sector

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Less than Rs. 25 lakh	Less than Rs. 10 lakh
Small	Rs. 25 lakh to Rs. 5 crore	Rs. 10 lakh to Rs. 2 crore
Medium	Rs. 5crore to Rs. 10 crore	Rs. 2 crore to Rs. 5 crore

* Investment limit in Plant & Machinery

** Investment limit in equipments

In case of manufacturing sector the micro enterprises is that where the investment level is up to 25 lakh. A small enterprises is that in which the investment is more than 25 lakh and does not exceed 5 crore. The concept of Medium enterprise has not been recognized until 2006, the first time the Medium sector has been explained and the investment level for it is Rs. 5 to Rs. 10 crore for manufacturing and Rs. 2 to Rs. 5 crore is for service enterprises. In case of service providing enterprises, the investment level in the micro sector does not exceed 10 lakh, for small enterprises it is between 10 lakh to 2 crore. The investment level for medium sector is 2crore to5 crore.

Table: 2 Distributions of Registered Enterprises by Sector in Rural and Urban Areas

	Micro (In Lakh)	Small (In Lakh)	Medium (In Lakh)	Total (In Lakh)
Rural	6.87	0.19	0.01	7.07
Urban	7.98	0.57	0.02	8.57
All	14.85	0.76	0.03	15.64

Source: Annual Report, 2011-12. Ministry of Micro, Small and Medium Enterprises, www.msme.gov.in

In the registered sector the number of micro enterprises is maximum. It counts 14.8486 lakhs enterprises and represents 94.94 %. Similarly small and medium enterprises represent 0.7647 lakhs and 0.0265 lakhs with the 4.89 % and 0.17 % respectively. This sector is mainly comprised of small entrepreneurs, starts their enterprise with an investment up to 25 lakh in case of manufacturing and up to 10 lakhs in case of services. The 45 % of the enterprises in the registered sector i.e 7.07 lakhs are located in rural areas and the rest of the 8.57 lakhs i.e. 55 % are located in urban areas.

Table: 3 The distribution of Micro, Small and Medium Enterprises according to the nature of business activity (Registered sector)

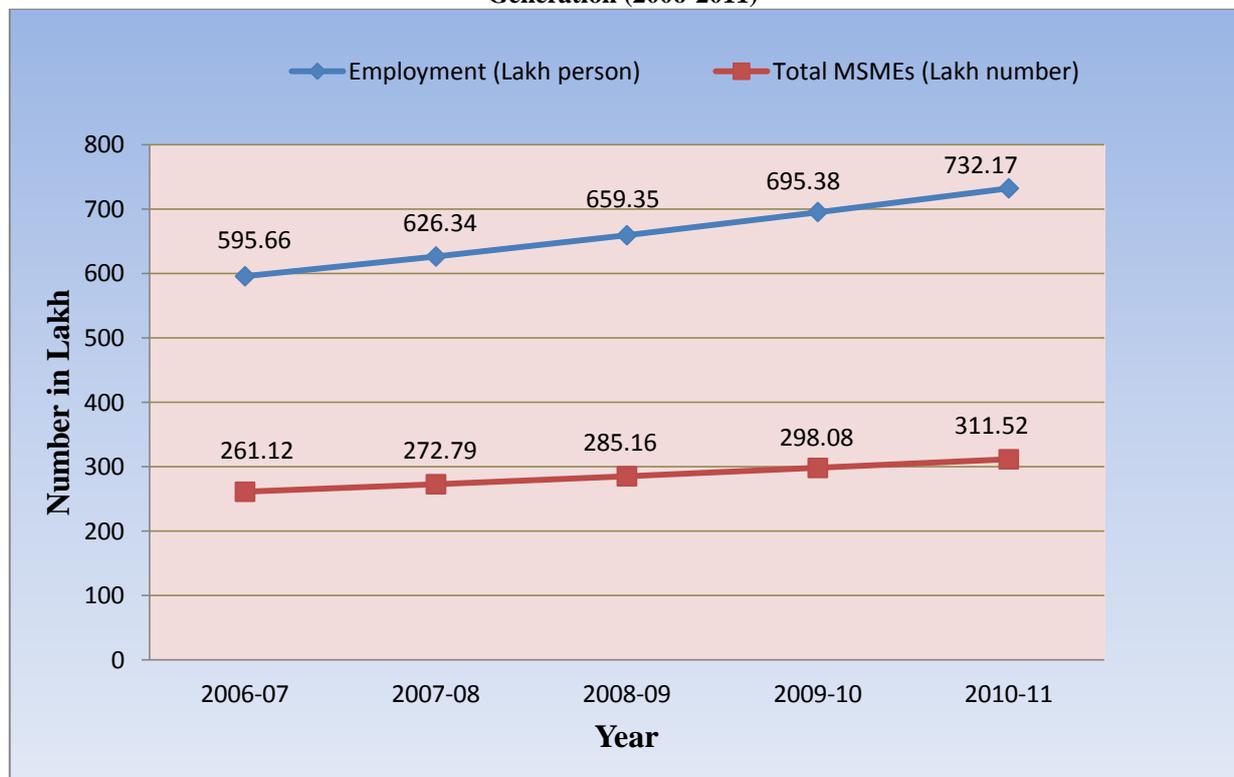
Nature of activity	Number of enterprises (in lakh)	% Share
Manufacturing	10.50	67.10
Services	2.62	16.78
Repair and Maintenance	2.52	16.13
All	15.64	100

As we can infer from the table that registered MSME sector is clearly dominated by the manufacturing sector. The 67.10% of the enterprises in this sector are engaged in manufacturing, whereas 32.90 % of the enterprises are engaged in the services activities. The service sector also includes repairing and maintenance.

In a developing country like India, the entrepreneurship development is still lacking. Despite of the governmental efforts and initiatives, entrepreneurship is still lacking. Even though the government has been providing many opportunities to the individuals to become entrepreneurs, their number is still lacking as compared to the entrepreneurs in other countries. It may be true that the government policies have been benefiting entrepreneurs. Thus in the present study a brief of government policies has presented which in turn have been promoting entrepreneurship in MSMEs.

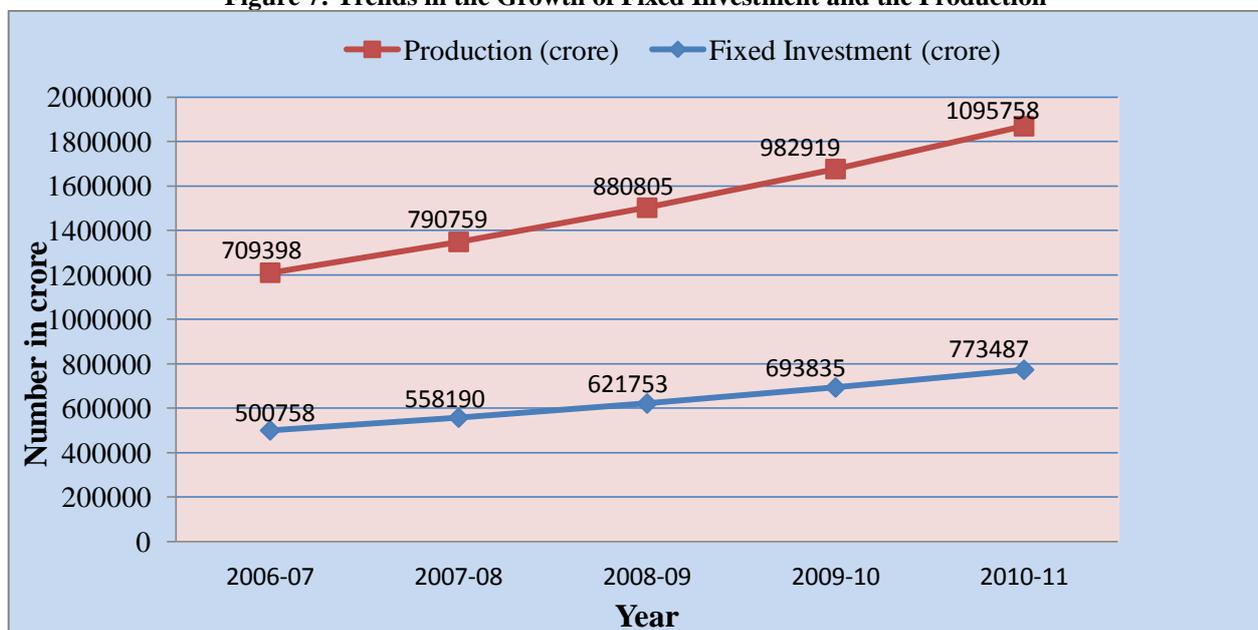
The Economic Contribution of Micro, Small and Medium Enterprises Sector: Recent Trends (2006-2011)

The enactment of Micro, Small and Medium Enterprises Development act 2006, leads to the setting up of national board for MSMEs and classification of enterprises. The Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form a single ministry, the Ministry of Micro, Small and Medium Enterprises (MSME). This Ministry now designs policies and programmes and monitors their implementation. This sector contributes significantly to the manufacturing output, employment and exports of the country.

Figure: Trends in the growth of total number of Micro, Small and Medium Enterprises (MSMEs) and the Employment Generation (2006-2011)

Source: Annual Report, 2012-13. Ministry of Micro, Small and Medium Enterprises, www.msme.gov.in

The figure clearly highlighted the fact that the number of MSMEs has increased steadily in India from 261.12 lakhs in 2006-07 to 311.52 lakhs in 2010-11. This was due to government initiatives to promote entrepreneurship in this sector and conducive policy environment during the liberalization era (post 1991). Similarly, number of persons employed in MSMEs has risen from 595.66 lakhs in 2006-07 to 732.17 lakhs in 2010-11. The increasing gap between the two lines over the years indicated that employment generation of the MSME sector had been more as compared to the growth in terms of number of enterprises. So it can be concluded from the figure that the employment intensity in these enterprises has been consistently increasing.

Figure 7: Trends in the Growth of Fixed Investment and the Production

Source: Annual Report, 2011-12. Ministry of Micro, Small and Medium Enterprises, www.msme.gov.in

It is clearly deciphered from the graph that the fixed investment and production are growing hand in hand. The production has increased from 500758 crores in 2006-07 to 773487 crores in 2010-11. This could be possible due to increase in fixed investment from 709398 crores in 2006-07 to 1095758 crores in 2010-11. The increasing gap between two lines shows that the increase in production is more as compared to fixed investment. It indicated that new enterprises had been utilizing their resources more efficiently or they were producing products by adopting new and more efficient methods.

IV. CONCLUSION

The contribution of MSME sector over the last fifteen years is very significant. The Productivity of this sector has been improving tremendously and growing consistently in the past couple of years in terms of production, export, fixed investment and employment generation. It indicates that the efforts are being made by the government to consolidate and develop this sector. The government has been going through major policy changes for the growth of this sector. The MSME Development Act of 2006 is one of the most crucial of these recent policy changes. Continued empowerment of MSMEs will enable them to attain high and sustainable growth in the long-run and support them in employment generation. The goal of full employment can only be achieved by the promotion of entrepreneurship. Entrepreneurship is the only way to create job.

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