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## *The Role of Micro, Small and Medium Enterprises in Economic Development*

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**Abstract:** *MSME sector play extremely significant role in Indian economy. MSMEs have the highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs have the advantage of generating employment with low investment, diversifying and the industrial base, reducing regional disparities through dispersal of industries into rural, semi-urban and backward areas. This paper places of interest the result of the Micro, Small and Medium enterprises and their position in the economy and the impact of economic reforms on growth pattern and performance of MSMEs. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.*

**Keywords:** *India, Micro, Small and Medium Enterprises (MSMEs), Overview and Economy.*

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### I. INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) play a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship. The MSME sector contributes significantly to the country's manufacturing output, employment and exports. In the Global Economy Micro, Small and Medium Enterprises (MSMEs) are a very heterogeneous group of business usually operating in the manufacturing, trade, agri-business, and service sectors. They include a wide variety of firms such as village handicraft makers, small machine shops, and computer software firms that possess a wide range of sophistication and skills. Some are dynamic, innovative, and growth-oriented while others are satisfied to remain small and perhaps family owned. MSMEs usually operate in the formal sector of the economy and employ mainly wage-earning workers. MSMEs are often classified by the number of their assets. The size of classification or by the value of their assets. The size classification varies within regions and advantage of across countries relative to the size of the economy and its endowments. The major the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises of the countries.

### II. MSMEs IN INDIA

In India MSMEs play an essential role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and level of

technology. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas, reducing regional imbalances and assuming more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socio-economic development of the country.

MSME sector plays a major role in India's present export performance. As per available statistics (4<sup>th</sup> Census of MSME Sector), this sector employs an estimated 597 lakh persons spread over 261 lakh enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40 % of the total export of the country. As a result, MSMEs are today exposed to greater opportunities for expansion and diversification across the sectors. The Indian market is growing rapidly and Indian industry making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, Information Technology (IT), Agro and Service sectors. MSMEs are finding increasing opportunities to enhance their business activities in core sectors.

### III. THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006

Government of India enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 to facilitate integrated development of Micro, Small and Medium Enterprises. It provides the first-ever legal framework for recognition of the concept of "enterprises" which comprises both manufacturing and service entities. It defines Medium Enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, Micro, Small and Medium. The Act also provides for a statutory mechanism at the National level with balanced representation of all sections of stake-holders, particularly the three classes of enterprises and with a wide range of advisory functions. As per the MSMED Act 2006, the enterprises are classified into manufacturing and service enterprises based on their investment in plant and machinery / equipment(excluding land and buildings) as indicated below:

**The defined limit on investment for enterprises to be classified as micro, small and medium enterprises is as follows:**

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs.2.5 million / Rs. 25 lakh	Rs.1 million / Rs. 10 lakh
Small	Rs.50 million / Rs. 5 crore	Rs. 20 million / Rs. 2 Crore
Medium	Rs.100 million / Rs. 10 crore	Rs. 50 million / Rs. 5 crore

\* Investment limit in Plant & Machinery

\*\*Investment limit in equipment

The term "Village industries" has been redefined in amended KVIC, Act 1956 as "any industry located in rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of artisan or workers does not exceed Rs. one lakh (Rs on lakh and fifty thousand in case of village industry located in a hilly area) or such other sum as may, by notification in the Official Gazette, be specified from time to time by the central Government".

#### DEFINITION

- (i) **Registered Sector:** Enterprises registered with district Industries Centres in the state / UTs.,KVIC / 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 Industry having investment in plant and machinery upto Rs10 crore were considered to belong to registered sector.
- (ii) **Unregistered Sector:** All enterprises engaged in the activities of manufacturing or in providing/rendering of services, not registered permanently or not filed EM with State Directorates of Industries/District Industries Centers on or before 31.3.2007 are called unregistered enterprises. Those enterprises that are temporarily registered on or before 31.3.2007 as also the units that are temporarily or permanently registered or filled EM after 31.3.2007 till date of Sample Survey, conducted as part of Fourth All India Census of MSME, 2006-2007 were treated as unregistered enterprises for the

purpose of this survey. Enterprises found forming part of registered sector as defined above were excluded from the coverage of unregistered sector.

**(iii) Small Scale Industrial Unit:** 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 Rs.100 lakhs as on 31.3.2001 is to be treated as small Scale Industrial Unit.

**(iv) 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 Industries Development and regulation Act, 1951 & other enterprises engaged in production and rendering services, subject to limiting factor of investment in plant and machinery and equipment respectively as noted below:

**A. For manufacturing sector, an enterprise is classified as:**

- a) Micro enterprise, if investment in plant and machinery does not exceed twenty five lakh rupees;
- b) Small enterprise, if investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; or
- c) Medium enterprise, if investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

**B. In case, enterprise is engaged in providing or rendering of services, it classified as:**

- a) Micro enterprise, if investment in equipment does not exceed ten lakh rupees;
- b) Small enterprise, if investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or
- c) Medium enterprise, if investment equipment is more than two crore rupees but does not exceed five crore rupees.

#### IV. OVERVIEW OF THE SSI/MSME SECTOR (4<sup>TH</sup> SENSES OF MSME)

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five opportunities at comparative to largely lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

Performance of Micro, Small & medium Enterprises (MSME) sector is assessed by conduct of periodic All India Census of the Sector. The latest census conducted with reference year 2006-2007, wherein the data was collected till 2009 and results published in 2011-2012. Fourth All India census of MSME the first census conducted post implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the sector was defined, as per the provision Industries Development and Regulation Act 1951, as Small Scale Industries (SSI) sector and its constituent tiny and auxiliary units as per periodic revision of criteria for defining such units. Third All India Census of SSI was conducted with coverage and concepts are prevailing during 2001-2002. The scope and coverage of the MSME sector was broadened significantly under the MSMED Act, 2006, which recognized the concept of “enterprise” and to include both manufacturing and services sector, besides defining the medium enterprises under MSME sector of economy was brought under to the revised criteria prescribed for defining Micro, Small and Medium Enterprises separately for manufacturing and service sectors, besides defining the medium enterprises under MSME sector. Thus the entire non-agricultural sector of economy was brought under the coverage of MSME sector to the revised criteria prescribed for defining Micro, Small and Medium Enterprises separately for manufacturing and services sector.

## V. SMEs FORM THE BACKBONE OF OUR ECONOMY

SMEs form the backbone of our Economy. They account for a large portion of our industrial output and employment. The bulk of service sector enterprises are also SMEs. Most of these SMEs are Own Account Enterprises. Most importantly a majority of Unregistered enterprises are owned or run by SCs, STs and OBCs. According to the Asia Pacific Equity Research paper Credit Suisse pointed out the unregistered business account for 84 percent of the non-formal employment in India – against 4-6 percent in “Developed” nations, study according to World Bank. What the study sees as the informal economy, the National Sample Survey Organization (NSSO) Survey 2011 presents as comprising 57.7 million non-corporate business units outside the huge construction sector. And 70 percent of them are unregistered says NSSO. They are the fastest growing since 1991, almost doubling since 1998. In contrast, and post-liberalization, that share of jobs in the organized sector came down from 8 to 7 percent. The first change in the government’s approach to this vital segment, so far derided as the “informal economy”, has been to adopt, in paragraph 102 in the Union Budget, 2014. A helicopter view of the nation’s economy and its major components is needed. The Asia / Pacific Equity Research paper of Credit Suisse-which manages \$1.3 trillion worth of assets that corporate constitute just “the tail” of the Indian economy. This report is dated July 2013, after two decades of celebration of the corporate sector. The paper titled “India’s better half: The informal Economy” adds: The intuitive habit of drawing macroeconomic conclusion from the corporate feedback is fraught with risk. After all, only half of India’s GDP and 10 percent of India’s employment are in the formal sector. Further only a fraction of the formal sector is listed. It also exposes the emperor’s new clothes story- that the corporate sector generates only 15 percent of the national consumption, with share of the listed ones in just a fraction, four percent. Moreover, the celebrated private corporate, with the IT and auto revolution, have added just 3.7 million jobs in 20 years from 1991. The credit Suisse report rightly concludes that the corporate “tail is unlikely to wag the dog”. Namely the national economy. The corporate sector is provide just over 14 million jobs but unregistered micro, small and medium scale industries or business is legitimate and provide more employment opportunities in India . So SMEs is called a backbone of Indian Economy.

**Table 1.1 STATE WISE DISTRIBUTION OF NUMBER OF EM-II\* FILED DURING 1<sup>ST</sup> APRIL, 2007 UP TO 31<sup>ST</sup> MARCH, 2012, (MSMES)**

Sl.No	Name of the State/Union Territory	2007-08	2008-09	2009-10	2010-11	2011-12
1	Andaman&Nicobar	50	60	68	77	82
2	Andhra Pradesh	4,478	4,726	9,144	9,204	9,260
3	Arunachal Pradesh	63	107	111	50	36(1)
4	Assam	1,811	1,711	1,678	1,506	1,218
5	Bihar	2,855	3,134	4,010	4,302	4,108
6	Chandigarh	32	161	255	174	259
7	Chhattisgarh	1,335	1,291	1,089	1,206	1,741
8	Dadra & Nagar Haveil	307	143	104	74	106
9	Daman & Diu	164	247	107	126	83
10	Delhi	131	70	165	199	345
11	Goa	57	76	112	88	97
12	Gujarat	13,185	17,866	19,992	27,939	51,781
13	Haryana	2,489	2,599	2,357	2,707	2,759
14	Himachal Pradesh	832	925	1,053	942	856
15	Jammu & Kashmir	1,044	971	1,192	914	1,170
16	Jharkhand	940	1,051	669	690	939
17	Karnataka	14,984	15,705	17,195	18,434	21,021
18	Kerala	11,068	15,935	12,013	10,194	10,020
19	Lakshadweep	5	14	23	24	8
20	Madhya Pradesh	12,319	14,183	19,747	19,704	20,104
21	Maharashtra	11,396	12,148	11,896	14,496	15,606
22	Manipur	54	139	81	122	120
23	Meghalaya	403	397	1,040	748	573
24	Mizoram	226	478	500	198	131

25	Nagaland	687	2,498	1,445	141(2)	-
26	Odisha	1,515	1,588	1,758	1,657	2,155
27	Puduchery	144	214	200	186	120
28	Punjab	932	1,272	2,189	2,988	3,087
29	Rajasthan	13,873	14,609	14,630	14,904	14,678
30	Sikkim	14	71	18	40	30
31	<b>Tamil Nadu</b>	<b>27,209</b>	<b>32,049</b>	<b>41,799</b>	<b>57,902</b>	<b>70,639</b>
32	Tripura	156	236	218	218	205
33	Uttar Pradesh	30,443	31,629	33,479	33,027	33,568(3)
34	Uttarakhand	1,500	1,346	1,871	1,973	2,121
35	West Bengal	17,618	13,428	11,685	10,109	13,470
	<b>ALL- INDIA</b>	<b>1,74,319</b>	<b>1,93,077</b>	<b>2,13,894</b>	<b>2,37,263</b>	<b>2,82,496</b>

\*EM-II (Entrepreneur Memorandum)

Source: The State/ UTs Commissionerates /Directorates of Industries, Annual Report of MSME, Government of India, 2012-13.

**Note:** (1)-Information from five DIC, awaited, (2)-Information from six DIC awaited and (3)- Information from five DIC, awaited.

**Table 1.2 NUMBER OF EM-II\* FILLED BY TYPE OF ENTERPRISES (MSMES)**

YEAR	Micro	Small	Medium	Total (All India)
2007-08	1,56,051	17,777	491	1,74,319
2008-09	1,71,031	18,757	690	1,93,077
2009-10	1,86,126	23,999	1,412	2,13,894
2010-11	2,04,064	29,101	1,260	2,37,263
2011-12	2,42,606	34,192	2,939	2,82,496

\*EM-II (Entrepreneur Memorandum)

Source: The State/ UTs Commissionerates / Directorates of Industries,

Annual Report of MSME, Government of India, 2012-13

**Note:** (p)-Provisional, since figures from some of the States UTs is awaited

**Table 1.3 State-wise distribution of principal characteristics of MSME Sector**

Sl.No	State/ UT	Enterprises (lakh)	Employment (lakh)	Market value of Fixed Assets (Rs. Crore)	Gross Output (Rs. Crore)
1	Andaman&Nicobar	0.07	0.23	96.95	254.24
2	Andhra Pradesh	15.36	38.98	32757.63	126864.55
3	Arunachal Pradesh	0.25	0.88	937.48	1101.73
4	Assam	2.34	6.58	6941.15	13403.27
5	Bihar	7.98	17.45	8405.45	16709.30
6	Chandigarh	0.29	0.70	607.05	1888.55
7	Chhattisgarh	3.01	23.67	12284.89	29075.42
8	Dadra & Nagar Haveil	0.06	0.34	229.58	2177.43
9	Daman & Diu	0.02	0.28	1881.53	7735.73
10	Delhi	1.78	6.52	10164.54	29672.34
11	Goa	0.59	1.20	3820.19	8147.46
12	Gujarat	15.32	34.42	166753.68	55306.91
13	Haryana	5.20	12.23	25998.80	53198.68
14	Himachal Pradesh	1.72	2.92	5599.25	17247.20
15	Jammu & Kashmir	1.33	3.07	8475.28	16035.39
16	Jharkhand	4.43	8.99	5020.72	10040.29
17	Karnataka	12.49	30.48	27161.11	56317.61
18	Kerala	14.44	33.20	44353.53	74821.73
19	Lakshadweep	0.01	0.05	17.30	20.01
20	Madhya Pradesh	12.57	20.30	10530.40	34388.44
21	Maharashtra	15.32	35.61	67941.24	126864.55

22	Manipur	0.49	1.58	646.03	1094.70
23	Meghalaya	0.50	1.17	468.55	1150.80
24	Mizoram	0.13	0.56	403.14	677.21
25	Nagaland	0.18	1.17	1273.67	2845.03
26	Odisha	9.97	23.67	12284.89	29075.42
27	Puduchery	0.14	0.46	1135.29	5771.99
28	Punjab	10.14	18.31	37126.69	81625.05
29	Rajasthan	9.68	18.42	25452.90	50004.43
30	Sikkim	0.07	0.57	72.16	189.76
31	<b>Tamil Nadu</b>	<b>20.55</b>	<b>53.16</b>	<b>77824.34</b>	<b>105270.21</b>
32	Tripura	0.28	0.76	661.73	1177.84
33	Uttar Pradesh	24.21	59.30	56161.03	111089.69
34	Uttarakhand	2.23	4.42	6014.98	16187.64
35	West Bengal	21.23	58.53	39433.22	78880.05
	<b>All India</b>	<b>214.38</b>	<b>501.93</b>	<b>689954.86</b>	<b>1077212.86</b>

Source: Annual Report of MSME, Government of India, 2012-13

## VI. CONCLUSION

The MSME sector is an imperative comprise of India's industrial sector. It contributes significantly India's gross domestic products and export earnings besides meeting the social objectives including that of providing employment opportunities 2 million of people across the country. If the accumulated losses of an industry reach equal to or exceed its entire net worth i.e., capital and reserve, it is called a sick industry. A small scale unit is considered sick when it's accumulated losses equal to or exceeds 50% of its peak net worth in the immediately preceding five accounting years. Sickness in industry does not occur overnight rather it takes 5 to 7 years to erode the health of an industrial unit. A small scale unit is considered sickness it's accumulated losses equal to or exceeds 50% of its peak net worth in the immediately preceding five accounting years. Sickness in industry does not occur overnight rather it takes 5 to 7 years to erode the health of an industrial unit. At presently experts and politician feel about the SMEs( registered and unregistered ) sector that provides 90 percent of non-farming jobs and half of that of nation's GDP also. At present government has come forward providing finance to them is the best way of formalizing them

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