

MSME : Pool of Employment in India

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Abstract

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. 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 & 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. The paper focus on the contributions made by the MSME sector to the employment generating in India. The paper also focus on challenges faced by MSME sector.

KEYWORD: MSME , Employment , India , challenges

1. INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSME sector contributes significantly to the country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and exports. The major advantage of 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 in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports.

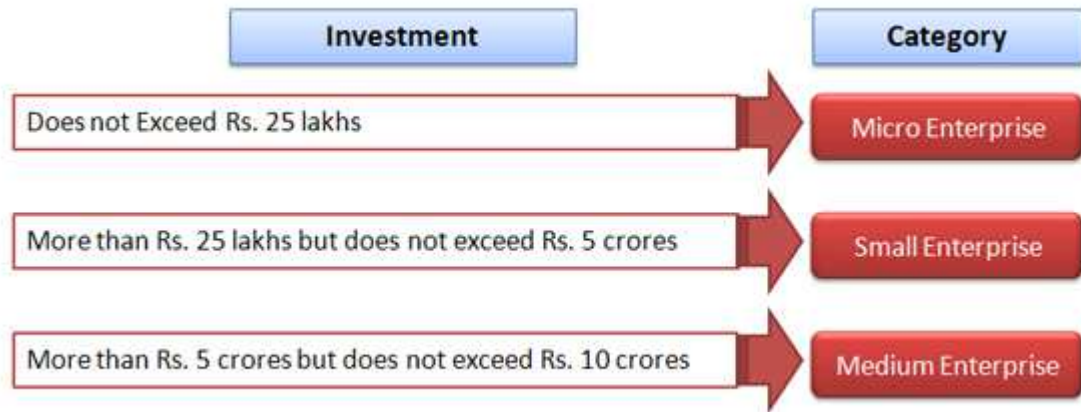
In India too, MSMEs play an essential role in the overall industrial economy of the country. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability 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 levels 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 industrialisation of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country. In this regard, Prime Minister Dr. Manmohan Singh stated, "the key to our success in employment lies in the success of

manufacturing in the small scale sector”. The growth rate recorded by this sector has normally been higher than that of the industrial sector as a whole. The small scale industrial sector has emerged over five decades as a highly vibrant and dynamic sector of the Indian economy. MSMEs has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification. The employment generating potential of this sector reveals its aptness for labour surplus economy like India.

2. What is Msme in India

Definition of Micro, Small and Medium Enterprises: There exist several definitions of the term small and medium enterprises (SMEs), varying from country to country and varying between the sources reporting SME statistics (Shambhu Ghatak, 2010). The commonly used criteria at the international level to define SMEs are the number of employees, total net assets, sales and investment

Classification Manufacturing Enterprises



Manufacturing sector refers to enterprises engaged in manufacture or production, processing or preservation of goods. The definition of Micro, Small and Medium Enterprises under the manufacturing sector is based on the **Investment in plant and machinery** [original cost excluding land and building] and **the items specified by the Ministry of Small Scale Industries** vide its notification No. S.O. 1722(E) dated October 5, 2006

Classification of service sector



Services Sector

Services sector refers to enterprises engaged in providing or rendering of services. These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakh) and professional & self employed persons (whose borrowing limits do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital requirements).

3. Objective Of The Study

The objective of this study is to know the role of MSME sector in generating employment, challenges being faced by MSME in India.

4. Current Status Of MSME In India

As per data released by the Ministry of MSME, Govt. of India, at present, there are about 26.1 million enterprises in this sector. The sector has a share of 45 percent in the manufactured output and 8% in the GDP. MSMEs contributed close to 40 percent of all exports from the country and employed nearly 59.7 million people, which is next only to agricultural sector. As on March 2013 there are 2032 specialized MSME branches (Source: RBI).

1. ROLE OF MSME IN GENERATING EMPLOYMENT IN INDIA

The MSMEs sector has been playing an important role in generation of employment in the country. As per the Fourth All India Census of the MSMEs, the details of employment generated in mn person days during last three years and current year, are:

Year	Million Person days
2008-09	65.9
2009-10	69.5
2010-11	73.2*
2011-12	80.5*

*Projected based on average growth rate for previous three years.

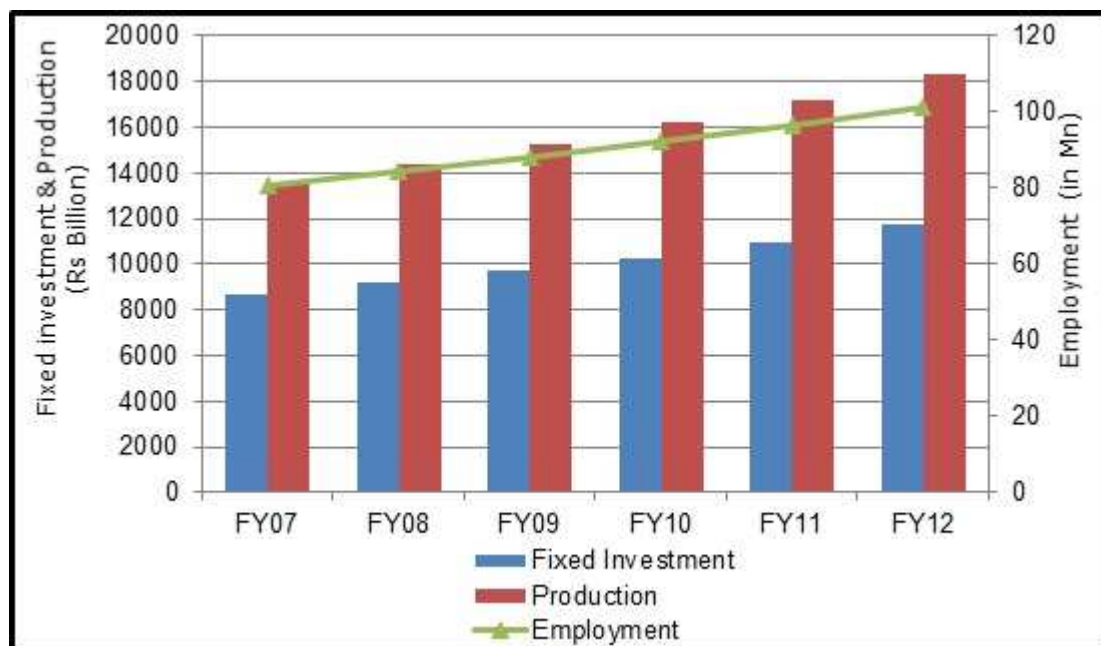
As per the 66th Round of National Sample Survey (2009-10), the total employment estimated in the country in 2009-10 was 400.08mn person days (current daily status). The share of total employment in the country generated by the MSME sector in 2009-10 thus works out to 17.3%. The employment generated by the MSME sector has been increasing at about 5% per year

Contribution of MSMEs to economic development is highly remarkable comparing to any other sector of the economy. The following chart more clearly exposes its significant towards employment generation in every state of India. It is clearly indicating that MSMEs sectors registered a very high growth rate.

State-Wise Distribution of Employment in MSMEs Sector

Sl. No.	State/UT Name	Employment(in Lakh)
1	Jammu and Kashmir	5.75
2	Himachal Pradesh	4.68
3	Punjab	26.79
4	Chandigarh	1.23
5	Uttarakhand	6.96
6	Haryana	18.84
7	Delhi	19.81
8	Rajasthan	30.79
9	Uttar Pradesh	92.36
10	Bihar	28.26
11	Sikkim	0.79
12	Arunachal Pradesh	1.19
13	Nagaland	1.71
14	Manipur	2.36
15	Mizoram	0.81
16	Tripura	1.75
17	Meghalaya	1.92
18	Assam	14.25
19	West Bengal	85.78
20	Jharkhand	12.91
21	Odisha	33.24
22	Chhattisgarh	9.52
23	Madhya Pradesh	33.66
24	Gujarat	47.73
25	Daman & Diu	0.37
26	Dadar and Nagar Haveli	0.41
27	Maharashtra	70.04
28	Andhra Pradesh	70.69
29	Karnataka	46.72
30	Goa	1.88
31	Lakshadweep	0.06
32	Kerala	49.62
33	Tamil Nadu	80.98
34	Puducherry	1.01
35	Andaman and Nicobar Islands	0.38
All India		805.24

Production and employment in MSMEs



Source: Annual Report 2012-13, GOI, Ministry of MSME

Global competition has thrown up various opportunities and challenges to the MSME sector in India. On the one hand, there are opportunities for this sector to enhance productivity and look at new domestic and international markets. On the other, these opportunities will compel the MSMEs to upgrade their competences to avoid obsolescence.

1. CHALLENGES

The MSME sector contributes in a significant way to the growth of the Indian economy with a vast network of over 32 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly.

It is an acknowledged fact that the MSME sector can help realise the target of the proposed National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16% at present to 25% by the end of 2022. However, this sector has faced certain impediments to growth, owing to some historical factors discussed below.

- **Lack of quality consciousness**

It is the major weakness of the small industries. Small and Medium Enterprises pay less attention to total quality programme and hence importance is less felt leading to quality problem (Derrick). Study reports show that under utilization capacity leads to reduction in level of productivity in Small and Medium Enterprises sector in India .

- **Lack of Financial Strength**

Receiving timely and adequate finance is a tedious exercise for both established as well as emerging MSMEs in India. According to the Indian Govt. survey, 90% of the total Micro

units in India procure funds from friends, relatives and private lenders only. Though the Banks finance to MSME has shown an upward trend in India, yet the lenders do not feel secure about lending to this sector for number of reasons. The borrowers of this segment are considered as high risk borrowers because of insufficient assets, low capital, vulnerability to market fluctuations and high mortality rates. Further, access to equity capital is a genuine problem. At present, there is almost negligible flow of equity capital into this sector.

- **Access to Markets**

To withstand the onslaught of competition from large enterprises within and outside, MSMEs need to respond promptly to the evolving marketing needs and innovations. The sector needs to be provided better market access facilities in order to sustain and further enhance its contribution towards output, employment generation and exports. A published research has highlighted that a huge opportunity exists for SMBs to reach their desired financial goals by optimizing their web presence and capabilities. It additionally pointed out that since the majority of India's MSMEs, especially the small businesses, generate a large proportion of their revenue from the local market; they still rely on traditional media like telephone directories and newspapers to reach their customer base.

- **Lack of Technological Knowledge**

With the increasing competition, globalization and uncertainty in the global market, it is essential for MSMEs to be technologically literate. Moreover lack of IT support, poor internet facility, and improper information and communication technology applications impedes the growth of this sector. A recent study reveals that MSMEs in India are broadly unaware of technology solutions and tools available to cater their marketing needs. According to the study, less than 6 per cent of Indian MSMEs with access to personal computers advertise online and a majority of these enterprises use traditional media. Many Indian MSMEs are also unaware of the effectiveness, measurability and predictability of using online advertising to reach the target audience.

- **Lack of proper Infrastructure**

lack of proper infrastructural facilities can cause serious damages to an enterprise's value chain process, like production, consumption and distribution of the products. There is a need for common infrastructure projects for MSMEs. MSMEs, through coming together and sharing the costs of infrastructure, which are otherwise prohibitive for individual MSMEs, could benefit from economies of scale, synergy and collective bargaining by collaborating with each other particularly on aspects of common infrastructure, common facilities, raw material procurement, marketing & transportation of finished goods, testing laboratory, common tooling/ machining, Research & Development etc.

2. CONCLUSION

The Micro, Small and Medium Enterprises (MSMEs) are one of the major segments of the Indian economy. It is the major constituent sector in employment generation, production system, enhancing exports and GDP. But, there is a need to carefully nurture and support this sector. Joint effort is needed from the Govt. and MSMEs to acquire technological effectiveness. Financial support needs to be ensured taking into consideration the growing

investment demand, including the requirements of technological transformation. The results suggest that perhaps the government should play a facilitator role and improve access to finance by encouraging more banks and other financial institutions to enter the local market, instead of becoming an active player itself. The results also suggest the core competence of the government in certain roles, example creating a facilitating environment such as improved connectivity by roads, railways and airways, improved availability of electricity and water supply. Design plays a strategic role in overall economy and will bring bright future in the coming years.

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