

MSME Sector: A Multifaceted Model to Achieve Prosperity

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Abstract

The current enthusiasm for the entrepreneurship culture results in mushrooming of self-employment activities. Self-employment also supports the growth of micro, small, and medium-sized enterprises (MSMEs). Of course, MSMEs have various economic benefits, and India is riding upon the performance of MSMEs to become self-reliant. But still, MSMEs should not be perceived in isolation for the economic benefits only. Rather, other socio-economic perspectives of MSMEs should also get equal consideration. Thus, this paper descriptive in nature attempts to record other socio-economic benefits. For this paper, various government reports and other related literature have been consulted. MSMEs have an impressive track record in contribution to GDP, employment generation, reducing social inequalities, women empowerment, and balanced geographical growth. The study concludes that the role of MSMEs in the development of India is crucial, yet there are many roadblocks that need state intervention through an appropriate policy framework. Some of the roadblocks in the progress of the MSME sector are difficulty in availing credit facility, lack of marketing avenues, inefficient productivity, operation of scale, frequent obsolescence of technology, inadequate infrastructure, and institutional framework. The paper also highlights the role of professionals in facilitating the smooth functioning and growth of the MSME sector.

Keywords: MSME, Entrepreneurship, Economic Development, Employment and Social Inequality

Introduction

'Self-Reliant India' is a new political slogan that has been aptly re-coined, given the current economic and global-political scenario. Our economy has badly shattered by the Covid-19 pandemic led lockdown and needs to revive smoothly to back on track. The tag line for 'Self-Reliant India' is 'Vocal for Local.' The Objective is two-fold firstly to reduce the deficit in the balance of trade and secondly to revive the economy. India is traditionally known as an agricultural-based economy, and after liberalization, it has more exposure to the tertiary sector (Datt and Sundaram). During the economic development journey, it skipped the adequate development of the manufacturing sector (Ghani and Kharas). India's economic progress trajectory defies an iron law of development that has held successful for three centuries since the evolution of the industrial revolution. To fulfill this gap, along with the vision of 'Self-Reliant India,' we need to strengthen Micro, Small, and Medium Enterprises (MSME). Though it is a vibrant sector for growth yet, it needs to attract the attention of policymakers to sort out its issues and challenges (Agyapong). It is important to mention here that the MSME sector constitutes both manufacturings as well as the service sector, yet the manufacturing sector requires special attention from policymakers (Singh and Paliwal).

MSME sector has become a significant sector of the Indian Economy since the adoption of erstwhile first Industrial Policy (P. Kumar). It has an impressive track record in the economic and social development of the country through encouraging entrepreneurship and generating employment opportunities for millions of people at the lowest capital cost next to the primary sector (Annual Report). Due to technological innovation led vertical disintegration of manufacturing process MSME enterprises as ancillary units are playing a complementary role to fulfill the input requirements of large scale industries, and this sector is facilitating inclusive industrial development of the Country. The MSME are expanding their horizon across all sectors of the economy, manufacturing a wide range of products and delivering diversified services to fulfill demands of domestic as well as international markets. The crucial economic contribution of the MSME sector has widely been studied and acknowledged theoretically, of course, with empirical evidence (Gade). There is a need to perceive the MSME sector through a holistic approach and highlight its other forms of advantages to the society and nation. Accordingly objective of this paper is to highlight the contribution of the MSME sector in the field of truncating social inequalities, equal distribution of wealth, women empowerment, balanced regional development, employment generation, human resource development, optimum utilization of natural resources, and fulfilling political objectives. The findings of this study are expected to provide a systematic review of the contributions of the MSME sector in the overall regional, social, and economic development of the nation. It also highlights the scope of MSME enterprises to become incorporated bodies and the available avenues where professionals like chartered accountants and company secretaries can help the MSME sector.

Research Methodology

This study is a limited review of the MSME sector's contribution towards the social, regional, and economic development of India. The present study uses a synthesis method by employing a

scoping review and meta-analysis review. Under scoping review, existing research studies have been summarized describing the role and importance of the MSME sector in the overall development of a nation. The scope of the literature review is limited to the objectives of the study, as discussed in the above introduction section. All of the existing literature highlights only the economic contribution of the MSME sector. Therefore this study is an extension to the existing research by incorporating social and regional development milestones achieved through leveraging on the MSME sector. To support the results of this study, data from annual reports of the Ministry of Micro, Small and Medium Sector Enterprises have been interrogated under the meta-data analysis method.

This paper has four sections. In the first section, the performance of the MSME sector during the last six years has been briefly discussed. In the second section, the social impact of the MSME sector has been explored. The third section describes the role of the MSME sector in the regional development of India. The fourth section highlights the industrial contributions of the MSME sector.

MSME s' Growth and Performance

Indian economy is predominantly an informal economy having enterprises established as unincorporated units (Sigel). According to the data collected during the year 2015-16 through National Sample Survey 73rd round by National Sample Survey Office under the aegis of Ministry of Statistics & Programme Implementation, there were around 63.3 million unincorporated MSMEs in the Country carrying various economic activities. According to the Ministry of Corporate Affairs' website as on 31st December 2014, there were 991384 companies having paid-up capital up to Rupees Ten Crore, and there were 30285 Limited Liability Partnerships having contributions up to Rupees Ten Crore. Thus, 98.41 % of MSMEs belong to the informal sector, while just 1.59% belong to the formal sector. Under the informal sector, the distribution of MSMEs according to their activities is as follows:

Table 1: Activity wise distribution of MSMEs

Activity Classification	Frequency Distribution of Number of Enterprises (in Lakh)			Share (%)
	Urban	Rural	Total	
Manufacturing	82.50	114.14	196.65	31
Trading	121.64	108.71	230.35	36
Other Services	104.85	102.00	206.85	33
Electricity	0.025	0.005	0.03	00
Total	324.88	309.00	633.88	100

Source: Annual Report

309 Lakh units of MSMEs situated in rural areas while 324.88 units were established in urban areas. There is a normal distribution of MSMEs between urban and rural areas. It has been observed that 31% MSMEs carrying manufacturing activities, 36% MSMEs engaged in trading activities while 33% MSMEs engaged in other services. MSMEs are also significantly contributing to the country's economy

according to GDP contribution and employment generation providing livelihood to millions of people. Out of total 196.65 manufacturing units, 58.23% units have been established in the rural areas, whereas, out of 437.23 other than manufacturing units constituting 55.43% units have been established in the urban areas.

Table 2: MSMEs' Contribution to India's Economy

Year	MSME (Gross Value Added)	Growth (%)	Total Gross Value Added	Share of MSME in Gross Value Added (%)	Total Gross Domestic Product	Share of MSME in Gross Domestic Product (%)
2011 - 12	26225.74	-	81069.46	32.35	87363.29	30.00
2012 - 13	30205.28	15.17	92026.92	32.82	99440.13	30.40
2013 - 14	33899.22	12.23	103631.53	32.71	112335.22	30.20
2014 - 15	37049.56	9.29	115042.79	32.21	124679.59	29.70
2015 - 16	40255.95	8.65	125666.46	32.03	137640.37	29.20
2016 - 17	44057.53	9.44	138415.91	31.83	152537.14	28.90
Average	35282.21	10.96	109308.85	32.325	118999.29	29.73

(Figures in Rs. Hundred Crore adjusted for Financial Intermediation Services Indirectly Measured at Current Prices)

Source: Annual Report

According to the Table-2 MSME sector has been consistently contributing to India's GDP. In terms of Gross Value Added, it has scored an average growth rate of 10.96 %, and its share in total Gross Value Added of the nation is 32.32 %, whereas its share in total Gross Domestic Product of the nation is 29.73%. MSME sector contributes a major chunk to India's GDP, and it needs the attention of policymakers to strengthen this sector to become a self-reliant economy by meeting our domestic demand for goods and services indigenously. The figures stated in the Table-2 above show that the contribution of MSME to GDP as well as to GVA is ever increasing.

MSMEs Truncating Social Inequalities

In India, the division of labor was historically based on the 'varna system' where business and entrepreneurship had been under the dominance of the 'vaishya community' (Jarwal and Kahal). The Indian Constitution has provided various measures to promote social equality through fundamental rights and directive principles. The Country adopted a mixed economy model, but the majority of resources were held by a small proportion of the population (Benhabib and Bisin). Over the years after independence, the income distribution in India has been skewed to the right where it shows an asymmetrical long upper tail, and resultantly, very few people own a large part of

national income. Economies of scale since long been controlled by the capitalists, who were able to bring a large amount of capital and also enjoyed a monopoly in the production sector (Cowling). With the Liberalization policy brought vertical disintegration of the business process and mushrooming of MSMEs,

the wealth is trickling down, and it is helpful in minimizing social inequalities (McCartney). Moreover, the ownership of MSMEs has also been significantly dispersing amongst persons belonging to marginalized sections.

Table 3: Distribution of Enterprises among Social Group Members (figures in %)

Area	Scheduled Castes	Scheduled Tribes	Other Backward Classes	Others	Not Known	Total
Urban	9.45	1.43	47.80	40.46	0.86	100
Rural	15.37	6.70	51.59	25.62	0.72	100
Total	12.45	4.10	49.72	32.95	0.79	100

Source: Annual Report

The statistics of the distribution of enterprises among social group members depict satisfactory results. The marginalized group members owned almost 66.27% of MSMEs, though dominated by members of other backward classes. Yet, the percentage of enterprises owned by scheduled castes/tribes needs to increase by at least 3%, given the size of their population to the total population of the country. It is good that in the rural areas, the ownership amongst the socially backward group is almost 73.67%, and it will help in reducing social discrimination, which is more prevalent in rural areas as compared to urban areas.

MSMEs Promoting Women Empowerment

The status of women in developing economies has immensely improved, and MSMEs are instrumental in promoting women empowerment though not equal to men's representation, yet still achieved some significant milestones. Women were traditionally engaged in non-monetary economic activities like subsistence to agriculture, upbringing children and domestic labor, etc. now, they are also taking part in monetary economic activities like self-help groups, trading, labor, and enterprise ownership, etc. (Kpelai).

Table 4: Female/Male Category wise Ownership (figures in %)

Area	Male	Female	Total
Urban	81.58	18.42	100.00
Rural	77.76	22.24	100.00
Total	79.63	20.37	100.00

Source: Annual Report

Out of the 6.66 Crore MSMEs, around 6.08 Crore MSMEs are sole proprietorships, i.e., 95.98%. Males have predominance over ownership of proprietary MSMEs who owned around 79.63 of enterprises as compared to 20.37% of female ownerships. The predominance is prevalent in rural as well as urban areas, and there is no significant deviation in this pattern. However, it is pertinent to note that MSMEs have employed 264.92 Lakh, women, across all sectors. The above statistics are not satisfactory concerning female ownership, yet it is showing some prospects for women empowerment.

Employment generation through MSMEs

MSMEs are not only providing livelihood to the owners; rather, they are generating employment opportunities to others also (Dey). Though the majority of MSMEs had started as sole proprietary establishments, yet due to the expansion of business operations, owners have been employing other persons to run units smoothly.

Table 5: Distribution of Employees in Male and Female Category

Area	Male	Female	Total	Share (%)
Urban	484.54	127.42	611.96	55
Rural	360.15	137.50	497.65	45
Total	844.69	264.92	1109.61	100

Source: Annual Report

During the year 2015-16, MSMEs had created around 11.10 Crore employment opportunities, out of which 32% were generated in the manufacturing sector, 35% in the trade sector, and 33% in other service categories. On average, each unit is employed

around two persons. The 45% of jobs created in 3.09 Crore units established in rural areas are also proving helpful in containing rural migration to urban areas. It is also leading to infrastructure development in rural areas. The manufacturing units are providing at least 1.86 Crore jobs in rural areas and 1.73 Crore jobs in urban areas. Trade and other service sectors do enhance the skills of employees, but skills developed in manufacturing areas are more significant (Collins). During the entrepreneurial journey, the workers employed by MSMEs are presently working as apprentices who are intrapreneurs and may become potential entrepreneurs provided opportunities made available to them (Jarwal and Kahal). In this way, MSMEs are a good source of human resource development. Homophily is also present in the MSME sector, and the majority of enterprises owned by social group members employ the person belong to the same community, consequently, due to homophily factor, people of the marginalized sections are more benefitted by MSMEs in terms of employment opportunities (Gompers, Huang and Wang).

Balanced Regional Development through MSMEs

India's infrastructural growth is highly skewed towards seven big cities, including four metropolitan cities (Mathur). These cities are Mumbai, Delhi, Chennai, Kolkata, Bangalore, Hyderabad, and Ahmadabad. Due to skewed growth patterns, abundant natural resources and potential development centers remained unutilized, and even economists had to coin terms like 'BIMARU' states (Som and Mishra). But the normally distributed growth relative to population-level has been minimizing this skewness pattern, and due to the proliferation of MSMEs in rural areas, infrastructure development is also reaching towards small towns and other remote places.

Table 6: Distribution of MSMEs among States / UTs

States/ Union Territories	Estimated Number of MSMEs	
	Number (in lakh)	Share (in %)
Uttar Pradesh	89.99	14
West Bengal	88.67	14

Tamil Nadu	49.48	8
Maharashtra	47.78	8
Karnataka	38.34	6
Bihar	34.46	5
Andhra Pradesh & Telangana	33.87	5
Gujarat	33.16	5
Rajasthan	26.87	4
Madhya Pradesh	26.74	4
Total of the above eleven States	469.36	74
Other States / UTs	164.52	26
All	633.88	100

Source: Annual Report

The annual report of the year 2019 did not report figures of Andhra Pradesh and Telangana separately. The State of Uttar Pradesh has the largest share of the population in India, and it is also home to the largest number of MSMEs constituting around 14% of total MSMEs established in the country. The so-called BIMARU States Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh are also among the top ten states in terms of MSME establishments. The most encouraging fact is that Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, Jharkhand, and Odisha are also registering the largest share of MSMEs through UAM (Udyog Aadhar Memorandum) filing system. The UAM is required to be filed online by newly established units. The establishment of MSMEs in semi-urban and rural areas is helpful in the development of peripheral infrastructure facilities like power distribution network, potable water, sanitation & drainage system, banking services, internet & telecommunication, roads, schools, marketing & shopping centers, markets, and hospitals (Syal). The most populated urban centers have reached their saturation point. Thus the development of semi-urban and rural areas will provide relief to urban centers in solving their urbanization related problems (Cell).

Contribution of MSMEs in Industrial Development

The MSME sector constitutes around 90% of the total industrial sector, and it is also supplying crucial input products for large scale industries. The MSME sector is heterogeneous, and it produces

more than 6000 types of products (Annual Report). It is actively engaged in utilizing natural resources as input materials and also channelizes raw material to large scale industries (Wrigley). It produces a wide range of products to fulfill industrial as well as household demands. It produces the majority of products in apparel, food & beverages, furniture, metal fabrication, and textile categories. Moreover, it is also playing an important role in increasing exports and minimizing imports (Al-Huari, Al-Nasour, and Al-Weshah).

Conclusion

Looking towards the role of the MSME sector in employment generation, women empowerment, contribution to national income, supporting industrial activities, balanced regional development, and truncation of social inequalities, we can aptly say that it is a multi-faceted tool to achieve development and prosperity. However, this sector still has great potential to expand and develop to approach even more underdeveloped regions of the country (Pinder). The policymakers need to look into the problems being faced by this sector. The major roadblocks in the progress of the MSME sector are difficulty in availing credit facility, lack of marketing avenues, inefficient productivity gave operation of scale, frequent obsolescence of technology, inadequate infrastructure, and institutional framework (Ghatak). In India, the cost of manufacturing in the MSME sector is very high. One of the factors responsible for such a high cost is due to expensive fuel costs. Fuel cost has a cascading effect on the manufacturing process as it increases the cost of transportation of every item resulting in the high cost of manufacturing as well as the living. The prices at which we are offering manufactured products are not competitive with prevalent international market prices; consequently, our firms are not able to compete with international market players, and also the availability of cheap imported goods is posing a challenge to the survival of domestic MSME units (Verma). So the government should provide a policy framework to minimize input costs so that products of the MSME sector become price competitive. For the growth of the MSME sector, both Central and State Governments have formulated various

schemes and measures to tackle problems being faced by these units. Still, lack of awareness and complex formalities refrained entrepreneurs from taking benefits of all such measures (Kumar, Batra, and Sharma). Thus apart from the Government(s), professionals like chartered accountants, company secretaries, and cost accounts have a vast area of practice where they can facilitate the smooth running of MSME enterprises and provide solutions to solve their problems. Professionals can help entrepreneurs to avail of the benefits of the various State-run schemes and enable them to take credit facilities. Many professionals are associated with the state and the national level chamber of commerce, and even some of them leading these institutions so they can help in providing marketing avenues to the entrepreneurs in the national as well as international arena. The majority of entrepreneurs engaged in the MSME sector are not habitual in using management information systems and legal compliances, so professionals can help them in record keeping, information-based decision making, and complying with legal formalities cum filings. As there are only 2% of MSME establishments which are incorporated bodies and rest all are functioning in the informal sector as unincorporated bodies. With the expansion of the economy, the units under the MSME sector are bound to grow. Maximum numbers of units are micro-sized and have the potential to upgrade themselves into small and medium-sized enterprises. So professionals may advise them to change their forms of business organization and convince them to get incorporated into Limited Liability Partnerships or small scale companies. Incorporation will help entrepreneurs to optimize their risk-taking perception and also build an organized economy, which will reap many benefits to society at large.

Limitations of the Study and Scope for Further Research

The study is based on data published before the outbreak of the Covid-19 pandemic. The Covid-19 pandemic has devastated all world economies badly. So reliability and finding of this study are subject to deviations anticipated from the post-COVID-19 performance of the economies. The research is confined to the Indian Territory only. Researchers

may opt to include more homogeneous territories to find more comprehensive results. The research can be extended to incorporate the impact of the Covid-19 pandemic on developing economies.

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