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# Role of Micro Small and Medium Enterprises (MSME) in Employment Generation in India

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## Abstract

*The importance of 65 million MSMEs, which account for about 120 million jobs and 30% of the country's economic output, cannot be underestimated as it forms the backbone of the industrial landscape of the country contributing 49 % to the exports and 45% to the manufacturing sector and also responsible for around 30% of total employment generation in India. The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last few decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contribute significantly in the inclusive industrial development of the country.*

**Keywords: Employment, Growth, Agriculture, Industry, Development and Sector.**

## Introduction

Small and medium enterprises (SMEs) are essential for the development and stability of any nation's economy and are especially important for developing nations since they promote economic activity, create jobs, and reduce poverty. They might be viewed as constituting the skeleton of the Indian economy. More than 99% of all estimated MSMEs are in the micro sector, which is anticipated to have 630.52 lakh businesses. With 3.31 lakh and 0.05 lakh estimated MSMEs, respectively, the small and medium sectors make up 0.52% and 0.01% of all estimated MSMEs.

## Definitions of Micro, Small & Medium Enterprises

In India, the term "medium establishment" has also been used for the first time in the context of a separate Act governing the promotion and development of Micro, Small and Medium-Sized Enterprises (MSME) development Act, 2006 (which took effect on October 2, 2006). The office of the Development Commissioner (Micro, Small and Medium-Sized Enterprises) serves as the nodal development agency under the Ministry of Micro, Small and Medium-Sized Enterprises (MSME).

The Micro, Small and Medium Enterprises (MSME) are classified into two classes:

**Manufacturing Enterprises**

Businesses involved in the production or manufacture of goods for any of the industries listed in the first schedule to the industries (Development and regulation Act, 1951). According to their plant and machinery, manufacturing businesses are defined.

**Service Enterprises**

The Enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limits for investment in Plant and Machinery/ Equipment for manufacturing / service enterprises, as notified vide S.O. 1642(E) dated. 29.09.2006 is mentioned below:

**Manufacturing Sector**

Enterprises	Investment in Plant & Machinery
Micro	Does not exceed twenty five lakh rupees
Small	More than twenty five lakh rupees but does not exceed five crore rupees.
Medium	More than five crore rupees but does not exceed ten crore rupees.

**Service Sector**

Enterprises	Investment in Equipment
Micro	Does not exceed twenty ten lakh rupees
Small	More than ten s rupees but does not exceed two crore rupees.
Medium	More than two crore rupees but does not exceed five crore rupees.

**Create Large Scale Employment**

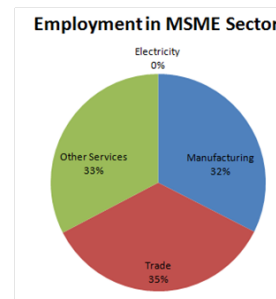
Numerous young people who are unemployed now have a lot of employment alternatives because to the inexpensive startup costs of the businesses in this industry. Every year, India generates roughly 1.2 million graduates, of whom 0.8 million are engineers. Furthermore, no economy in the entire globe is capable of hiring as many recent graduates in a single year. For many of these new workers, MSME is a blessing.

In both rural and urban areas across the nation, the MSME sector has been creating 11.10 crore jobs, according to the 73rd round of the National Sample Survey (NSS), which was conducted between 2015 and 2016. Of these jobs, 360.41 lakh have been created in manufacturing, 387.18 lakh in trade, 362.82 lakh in other services, and 0.07 lakh in non-captive electricity generation and transmission.

**Table 1 The Distribution of MSMEs Activity 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
<b>All</b>	<b>497.78</b>	<b>612.10</b>	<b>1109.89</b>	<b>100</b>

**Figure 1 The Distribution of MSMEs Activity Wise**



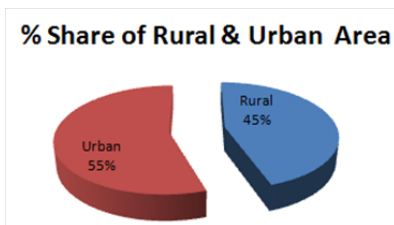
Source: Annual Report MSME in India

Micro sector with 630.52 lakh estimated enterprises provides employment to 1076.19 lakh persons, which accounts for around 97% of total employment in the sector. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs provides employment to 31.95 lakh (2.88%) and 1.75 lakh (0.16%) persons of total employment in MSME sector, respectively. Table 2 and Figure 2 show the sectoral distribution of employment in MSMEs.

**Table 2 The Sectoral Distribution of Employment in MSMEs**

Sector	Micro	Small	Medium	Total	Share (%)
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076.19	31.95	1.75	1109.89	100

**Figure 2 The Sectoral Distribution of Employment in MSMEs**



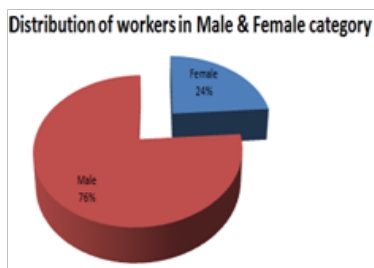
Source: Annual Report MSME in India

Out of 1109.89 lakh employees in MSME sector, 844.68 (76%) are male employees and remaining 264.92 lakh (24%) are females. Table 3 and Figure 3 show the distribution of workers in Male and Female category.

**Table 3 The Distribution of Workers in Male & Female Category**

Sector	Female	Male	Total	Share (%)
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
All	264.92	844.68	1109.89	100

**Figure 3 The Distribution of Workers in Male & Female Category**



Source: Annual Report MSME in India

**Employment in MSME Sector in India**

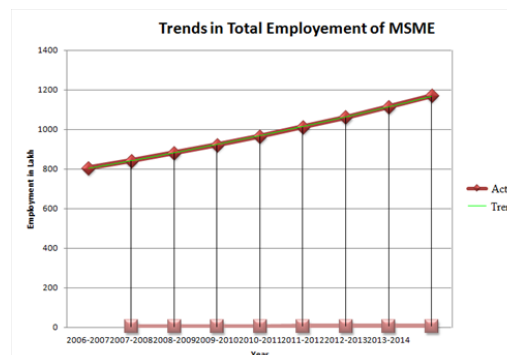
The growth of employment in detail account are discussed below, Table 4 give details regarding the growth of employment in relation to its annual change, average growth an coefficient of variation

**Table 4 Trends in Total Employment of MSME**

Year	Employment	Annual % variation
2006-2007	805.23	-
2007-2008	842.23	4.59
2008-2009	881.14	4.62
2009-2010	922.19	4.66
2010-2011	965.69	4.72
2011-2012	1012.59	4.86
2012-2013	1061.4	4.82
2013-2014	1114.29	4.98
2014-2015	1171.32	5.12
Projected Value for 2025-2026	1657.985	-
x	975.12	-
CV	12.81668	-

Source: Annual Report MSME in India

**Figure 4 Trends in Total Employment of MSME**



Trends in the total employment applied by various MSME sector of India between 2006-2007 and 2014-2015 are as follows

There was a significant change in the employment in MSME sector. From 805.23 lakh during 2006-2007 it had increased to 1171.32 lakh showing two folds increase over a period of 9 years. Annual variation ranged between 4.59% and 5.12%. The maximum variation was found during 2004-15 and through out the period it was positive. The average growth

was recorded at 975.12 lakh with the magnitude of variability as 13%. The projected value for 2025-2026 was 1657.98 lakh and shows the growth was moderately stable.

### Employment Sector Wise

During the period of 2014-18 the employment generation for sector wise were listed below

- Khadi & village industry sector created nearly about 1,37,79,000 jobs
- Prime Minister employment Generation programme (PMEGP) 1,93,818 units setup providing employment to 14.75 lakh
- Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) 51,11,026 peoples got employed
- MSME Technology centers 6,42,272 people were trained out of which 91,634 people got placement.
- Assistant of Training institution (ATI) 2,07,235 people trained of which 43,761 got wage employment and 21,783 were self employed.

### Recent Initiatives

The Government recently launched ‘MSME Support and Outreach Program’ and announced twelve big decisions to support the growth of small businesses in the country. Here are 12 key decisions recently taken by government to support MSMEs

#### 59-Minutes Loans

The GST-registered micro, small and medium enterprises (MSMEs) will be sanctioned a loan of Rs 1 crore in just 59 minutes through a new portal. This will enable MSMEs to get the loan approval within 59 minutes.

#### Rebate in Interest Rate

The GST-registered MSMEs will get 2% subvention or rebate on incremental new loans of upto Rs 1 crore. Interest subvention on pre- and post shipment credit for exports by MSMEs has also been increased from 3% to 5%.

#### Cash Flow Certainty

It is now mandatory for companies with a turnover of more than Rs 500 crore to join Trade Receivables

eDiscounting System (TReDS). This provision will help MSMEs to have liquidity in their hands and will solve their cash flow problems.

### Procurement by PSUs

Public sector companies, which were mandated to source 20% of their annual procurement from MSMEs, will now source at least 25% of their requirements from MSME sector.

### Women Entrepreneurs

Out of the 25% procurement mandated from MSMEs, 3% must now be reserved for women entrepreneurs.

### Government e-Marketplace (GeM)

All central public sector enterprises will have to take membership of the Government e-Market place (GeM) to facilitate online procurement of common use goods and services by various government departments and organisations. GeM is a great platform to boost the MSME sector. The MSMEs can bid for market tenders free of cost through the e-Procurement portal. This would allow MSMEs to actively participate in various Government Procurement programs.

### Technological Upgradation

The government announced Rs.6,000 crore package to facilitate better technological support and tools to small industries. The money will be used for 20 hubs and 100 tool rooms for technology Upgradation.

### Pharma Companies

The government will form MSME pharma clusters. 70% cost of establishing these clusters will be borne by the government.

### One Annual Return

MSMEs will have to file just one annual return on eight labour laws and 10 central rules.

### No More Inspector Raj

Inspections of factories in the MSME sector will be sanctioned only through a computerized random allotment and inspectors will have to upload reports

on the portal within 48 hours therefore unnecessary harassment is eliminated.

### Relaxation in Environmental Clearances

MSMEs will now need single air and water clearance and just one consent to establish a factory. This will help in ease of starting a business.

### Ordinance in Companies Act

An ordinance has been promulgated to simplify the levy of penalties for minor offences under the Companies Act. This will save lot of time and freedom from unwanted hassles for MSMEs.

### Conclusion

The growth of the country has been greatly aided by the MSME sector, which has increased opportunities for banks to provide more credit to businesses in this sector while leveraging exports, creating a large number of jobs for the underemployed and the unskilled, as well as for fresh graduates. A revolutionary reform like the Goods and Services Tax (GST) has aided in the formalisation of the informal economy by bringing numerous Micro, Small & Medium Enterprises (MSMEs) there. The fact that these small enterprises are utilising Digital India and the internet to sell themselves, establish an online presence, and drive India's digital revolution is one of the reasons why they are seeing such great success.

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