

MSME IN INDIA: ENGINES OF EMPLOYMENT GENERATION AND ECONOMIC GROWTH

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ABSTRACT

This study delves into the significant role played by Micro, Small and Medium Enterprises (MSMEs) in India particularly in terms of employment generation and overall economic growth. It examines the current scenario of MSME through the employment, utilizing data from various sources including Annual report of MSME and NSS 73rd round conducted during 2015-16. The analysis shows the substantial contribution of MSME to job creation across different sectors and regions, highlighting their pivotal role in addressing issues of unemployment, poverty and regional imbalances. Moreover, the study explores the relationship between the number of working enterprises and employment generation over a fourteen-year period from 2001-02 to 2014-15, illustrating a positive economic trend characterized by steady growth in both sectors. The findings highlight the significance of MSMEs in driving economic development and fostering inclusive growth in India.

Keywords; MSMEs, Employment Generation, Economic Growth, Innovation

Jel Codes; L26, L53

INTRODUCTION

MSMEs which stand for Micro, Small and Medium Enterprises, recognized as an engine of economic growth. They play a vital role in employment creation and economic development for developing countries (Haftu et al., 2009). These enterprises are the backbone of the Indian economy, contributing significantly to job creation, output, export, economic progress, poverty reduction, women's empowerment, rural industrialization and the reduction of income inequalities both in developed and developing nations (Satyapathii et.al.,2017). In India, there are 63 million MSMEs, provide employment to 113 million people. They contribute 30% of India's GDP, 45% of total manufacturing output and 40% of country's total export. This creates

11.10 crore jobs (NSS 73rd round 2015-16 & RBI, 2019). Consequently, MSMEs play a significant role in reducing unemployment, poverty, migration, inequality and regional imbalances in rural and less developed areas of the country. SMEs play a key role in job creation as well as growth of GDP, it contributes 55 % of GDP and 65% of total employment in high-income countries, while corresponding shares for middle-income countries are 70 and 95% and for low-income countries shares are 60 and 70% (OECD, 2004). So, MSME is quite relevant in most of the nations including India, it provide employment to the surplus labor force after the agriculture sector. Within India, some states, like Maharashtra, Gujarat, Andhra Pradesh, Uttar Pradesh, Assam, Madhya Pradesh, Bihar, Rajasthan and Karnataka etc.

MSMEs play a critical role in promoting economic development, especially in countries like India where these enterprises have a major impact on entrepreneurship, job creation and regional development. In past, categorization of MSMEs in India was based on investment in plant and machinery, along with turnover thresholds. However, recognizing the need for a more adaptable framework conducive to enterprises growth, the Indian government introduced a revised classification effective from July 1, 2020. Under the new classification, definition of MSMEs based on investment as well as annual turnover, with the aim of promoting ease of doing business and enabling these enterprises to scale up without losing essential benefits. The new criteria remove the distinction between manufacturing and service sectors, providing more flexibility for enterprises operating across various industries. This revised definition enhances the support MSMEs more effectively and align with the broader objectives of economic growth and development. Therefore, the new definition is a vast improvement over the earlier definition and should help MSMEs to face new challenges in a better way.

Significance of MSME Sector

Micro, small, and medium-sized enterprises constitute the backbone of economic expansion in growth of all the developed and developing countries in the world. They have made significant contribution to the GDP (gross domestic product) and have been prominent role in terms of increasing employment opportunities, reducing regional inequities, fostering manufacturing capabilities and disturbing wealth equally (Hussain et al., 2020).. Despite issues with institutional loan flow, sufficient market connections and infrastructure, India has seen a significant rise in this sector. In India, micro, small and medium enterprises hold immense significance for the economy and society. Firstly, these enterprises are major contributors to employment generation in India, particularly in sectors such as manufacturing, agriculture and service sector. They account for a significant portion of the country's workforce, providing livelihoods to millions of people, including those in rural and semi-urban areas (Annual report of MSME). Secondly, it play a vital role in fostering entrepreneurship and innovation. It serve as grounds for new business ideas, technologies, and products, contribute to the economic diversification.

LITERATURE REVIEW

Role in economic growth

Globally, there is an agreement that MSMEs are essential to economic progress because of their rapid growth of enterprises and role of MSME in employment generation. (Normah, 2007). The SME sector has continually grown at a faster rate in recent years than the global industrial sector as a whole. According to EU, micro, small and medium-sized enterprises are considered to be significant for both socially and economically. Around 90 million employments are provided by them, and they support innovation and entrepreneurship. (Indarti&Lagenberg, 2004) analyses SMEs in Italy account for USD 35 million people in the country. (Omar et al., 2009) found that SMEs in Malaysia contribute 19% of exports, 32% of employment opportunities and 32% of the GDP. (Srinivas, 2013) found that Micro, small and medium-sized enterprises are recognized as the catalyst for economic growth and as advancing impartial advancement. It is also contributing in raising the standard of living of people. (Gonzales, 2014) examine MSME account for a disproportionately high percentage of employment in regions like the OECD economies, Europe, South and Central Asia and Africa. They also conclude that Canada leads the way with 85% of employment coming from MSMEs, followed by China at 75%, Japan at 60% and Ukraine at 55%. According to (RBI, 2019) , there are 63 million MSME in India, they employ 113 million people and account for 40% of all exports, 45% of manufacturing production and 30% of India's GDP, 11.10 crore jobs are created.

Role in employment generation

(Normah, 2007) find that there is strong correlation between the predominate economic activities and the concentration of SMEs, in terms of employment but they have not reached their full potential. (Muragia, 2008) states that entrepreneurs in America are respected for their role in introducing new goods and services through innovation and technology advancement, lowering prices, improving product quality and creating new jobs. (Arora & Gupta, 2008) believed that in post-independence India, small scale industries created more employment in the economy and this sector is an engine for employment generation. (Bhavani, 2010) conducted a study that emphasizes the problem of SSIs producing more jobs at the expense of quality is a short-term strategy. The author argues that employment generation by SSIs may be high in quantity but low in quality. (Nalabala, 2011) study focuses on the job generation and growth pattern of MSME's. The study reveals the symbols and procedures associated with workplace illness. The report provides a good deal of information about the government sponsored credit programs. The credit guarantee fund trust for small industries, swarojgar credit card scheme, credit among the commercial banks are among the sources and scheme that can be used to meet the financial needs of MSME and improve their financial position. (Singh et al., 2012) analyzed the

performance of SSI and concluded that SSI sector has made good progress in terms of number of SSI units, production and employment levels. It recommended that boost the SSI through technology development and improve financial structure. (Katua, 2014) explores the functions of SMEs in economic development and employment generation as well as the issues faced by the SME sector. The study come up with a few recommendations that should boost SMEs contribution to economic expansion. (Manna & Mistri, 2017) examined the significant of MSME in employment creation and GDP growth. Their analysis reveals growing trend of both and indicate that registered sector suppressed unregistered sector in terms of output generation. The study concludes that in most of the states, registered sector is capital-intensive in nature, while unregistered sector is labor-intensive. Therefore, based on the above literature, it can be concluded that the MSME sector not only generate a large number of employment opportunities nationwide but also across different regions. This sector holds the potential to alleviate the issue of unemployment. (Gukurume, 2018) found that SMEs could be crucial in helping young people find employment given the high prevalence of youth unemployment in the nation. Additionally, (Vashishtha, 2021) found that in India, small enterprise plays a crucial role in the growth of an economy and also contributes to the progress of the economy by employing a large population.

Challenges facing MSMEs

(Rathod, 2007) assessed how globalization affected SSI and identified the barriers and issues faced by SSI. According to the report, there is need for a competitive environment, efficient infrastructure, adequate credit and financing availability, sufficient access of credit and regulatory framework and effective governance. (Akampumuza, 2007) identify the most challenging issues that Nigerian SMEs face include lack of education, high rate of illiteracy, high poverty rate, lack of information, poor decision-making process, lack of skill, inefficiency, and lack of lending policies. (Sonia & Kansai, 2009) examined how globalization affected MSMEs before and after liberalization, from 1973-74 to 2008-09. They came to the conclusion that MSME performance in the post-reform era was lacking. (Ghatak, 2009) stated that key issue affects the MSME are lack of credit, technology, red tapism and conclude that the key issues should be resolved for the MSME to operate more successfully. (Ambrose, 2012) also identified barriers to effective financial assistance to SMEs, which included absence of collateral requirement and regulatory framework. Moreover, lack of skilled workers, lack of infrastructure and lack of market knowledge. (Lahiri, 2012) examined the definitional component of MSMEs as well as the advantages and disadvantages of living in a globalized world. Moreover, he emphasized that the severe competition from large industries. (Benard and Victor, 2013) examined the growth of women entrepreneur in Tanzania on strength, weakness, opportunities and threats (SWOT). They used a sample of 130 women entrepreneurs and simple random sampling technique for selection of sample. Their main findings indicate that major strength of

women entrepreneur was the need for financial independence.(Garg, 2014) MSME's in India confront a variety of challenges as well as opportunities. The government's financing and subsidies, globalization, credit, finance, competitive technology, skill development, national manufacturing competitive programs, export promotion, and infrastructure development are external environment has opportunities. He identifies a number of significant obstacles that micro, small and medium-sized enterprises faced including lack of capital, management abilities, human and financial resources, infrastructure, and lack of knowledge on foreign markets. (Shettima, 2020) and (Sam et al., 2018) shed light on the challenges faced by enterprises particularly in terms of employment growth and MSME constraints. While Shettima emphasizes disparities in employment growth rate among Indian states, attributing them to challenges such as financial constraints, inefficient technology, lack of awareness, weak infrastructure, insufficient entrepreneurial skill.

The above literature review clearly indicates that, MSME growth is a primary driver of economic growth in terms of output, employment, investment and exports. However, the present MSME have faced numerous issues.

OBJECTIVE

The main objective of these study is;

- To study the role of MSME in employment generation in India.
- To examine the impact of MSME on overall growth of nation.

DATA COLLECTION AND METHODOLOGY

The present study is based on secondary data, it has been collected from Annual Report of MSME, various publication of MSME, books and journal will be used. Data is tabulated and analyzed using MS-Excel.

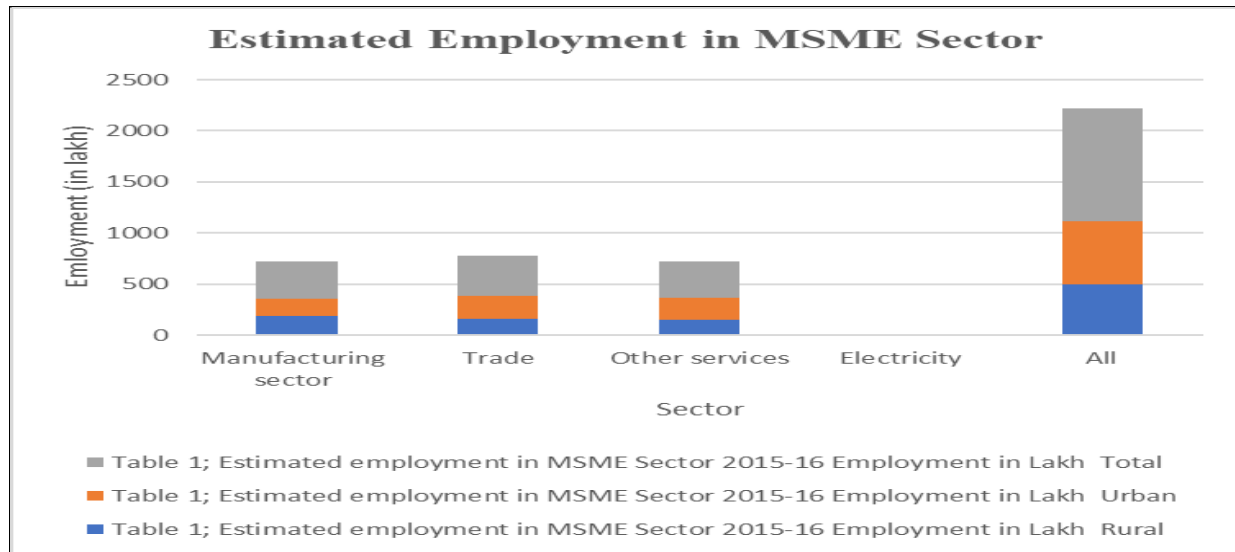
CURRENT SCENARIO OF MSME THROUGH EMPLOYMENT

MSME enterprises have made a greater contribution to solving the issues of economic poverty and unemployment. Over the years, it has been observed that MSME has provided job opportunities for both rural and urban areas, as well as male and female entrepreneurs in the manufacturing and service sectors. These days, MSME is now venturing into the agriculture sector. As per the results of NSS 73rd round conducted during 2015-16, MSME sector has generated 11.10 crore of jobs in both rural and urban areas across the country. The table that illustrates this situation: Employment through Table 1 and Chart 1 in the various sectors analyzed that in the manufacturing sector there are more employment opportunities in rural areas, whereas

in the trading sector, more employment opportunities have been generated in urban areas by MSME. Same situation has been seen in service sector.

Table 1; Estimated employment in MSME Sector 2015-16

SECTORS	Employment in Lakh		
	Rural	Urban	Total
Manufacturing sector	186.56	173.86	360.41
Trade	160.64	226.54	387.18
Other services	150.53	211.69	362.22
Electricity	0.06	0.02	0.07
All	497.78	612.1	1109.89



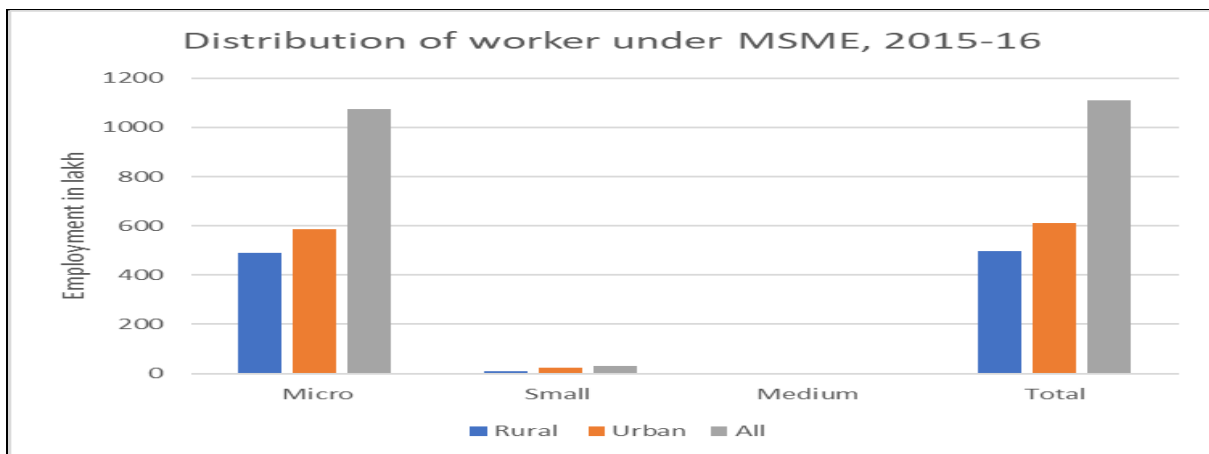
* Chart 1 Estimated employment in MSME sector in 2015-16

When it comes to analyzing the employment opportunities in rural Micro, Small and Medium-sized Enterprises, it has been noted that urban areas play a major role in creating jobs in all three areas. It can be shown in chart 2 and table 2.

Table: 2

Sector	Micro	Small	Medium	Total
Rural	489.3	7.88	0.6	497.78
Urban	586.88	24.06	1.16	612.1
All	1076.19	31.95	1.75	1109.89

Figure 2.



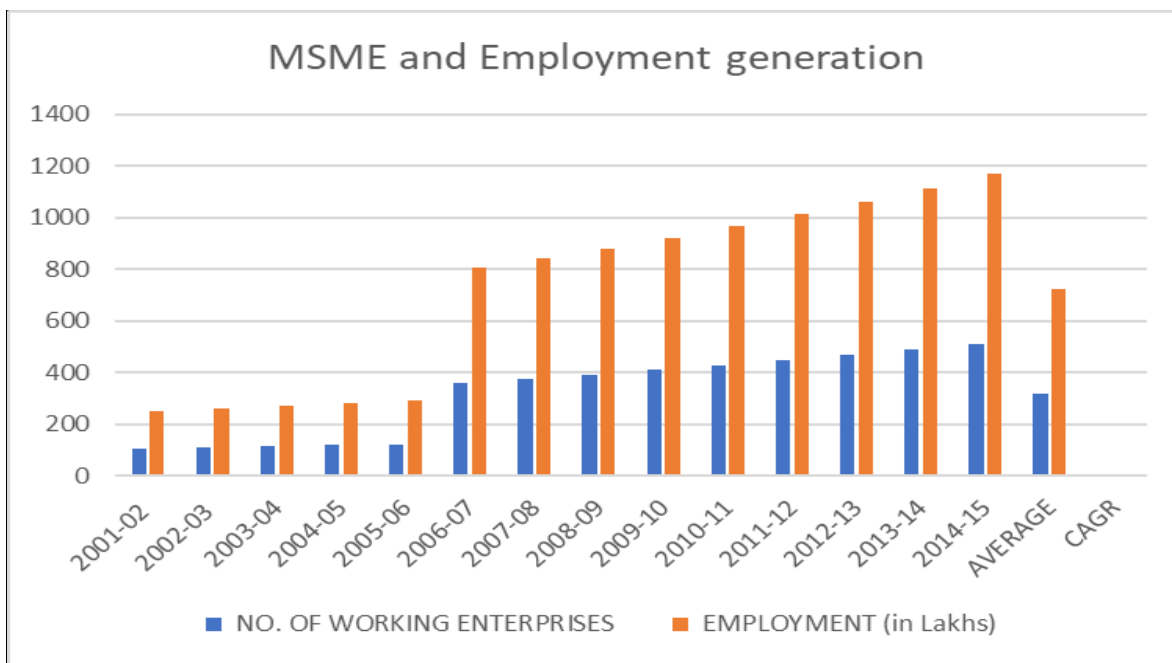
* Chart 2 shows the distribution of worker under MSME

Relationship between number of MSMEs and Employment generation, it shows with the help of table and chart:

Figure 3

YEAR	NO. OF WORKING ENTERPRISES	EMPLOYMENT (in Lakhs)
2001-02	105.21	249.33
2002-03	109.49	260.21
2003-04	113.95	271.42
2004-05	118.59	282.57
2005-06	123.42	294.91

2006-07	361.76	805.23
2007-08	377.37	842.23
2008-09	393.7	881.14
2009-10	410.82	922.19
2010-11	428.77	965.69
2011-12	447.73	1012.59
2012-13	467.54	1061.4
2013-14	488.46	1114.29
2014-15	510.57	1171.32
AVERAGE	318.384286	723.8943
CAGR	11.94%	11.68%



The table and chart provides a comprehensive overview of the evolution of working enterprises and employment figures over the fourteen years from 2001-02 to 2014-15. It reveals a consistent upward trajectory in the number of operating enterprises, with a compound Annual Growth Rate (CAGR) of 11.94%. This indicates a robust expansion in the working enterprises, showing an

increasing number of active ventures during this period. The employment sector has also witnessed substantial growth, at a slightly lower CAGR of 11.68%. This suggests a parallel rise in employment opportunities generated by the expanding enterprise base. On average, there were approximately 318.38 lakh working enterprises and 729.89 lakh individuals employed across these enterprises throughout the entire period. These statistics shows a positive economic trend characterized by steady business growth and employment generation, reflecting a dynamic and resilient economic landscape over the years analyzed.

CONCLUSION

The study sheds light on the indispensable role of micro, small and medium enterprises (MSMEs) in shaping the economic landscape of India. Through an in-depth analysis of employment generation and overall economic growth, it become evident that MSME serve as vital engines of progress, playing a multifaceted role in addressing key socio-economic challenges and driving inclusive development. The findings highlight the significant contribution of MSMEs to job creation, particularly in sectors such as manufacturing, agriculture, and services. With 63 million MSMEs providing employment to 113 million people, they have emerged as major contributors to the country's workforce, offering livelihood opportunities to millions, especially in rural and semi-urban areas. Moreover, MSMEs contribute significantly to India's GDP, manufacturing output and export earnings, accounting for 30%, 45% and 40% respectively. This substantial economic contribution underscores their pivotal role in fostering economic growth and prosperity.

Furthermore, the study highlights the resilience and adaptability of MSMEs, especially in the face of evolving economic dynamics. The revised classification introduced by the Indian government in July 2020 reflects a proactive approach aimed at fostering ease of doing business and enabling MSMEs to scale up their operations without losing essential benefits. This revised definition, which incorporates criteria based on both investment and annual turnover. It supports to MSMEs objective of economic growth and development.

Despite their significant contributions, MSMEs face a challenge ranging from access to finance and market linkages to infrastructure constraints and regulatory hurdles. However, it is crucial to resilience and potential of MSMEs in overcoming these challenges, especially with the support of conducive policy measures. Moving forward, it is imperative for policymakers, industry stakeholders, and other relevant to continue fostering an enabling environment for MSMEs to thrive. This includes key issues such as access to finance, enhancing market access, promoting innovation and technology adoption, strengthening infrastructure and regulatory frameworks. By empowering MSMEs and unlocking their full potential, India can harness the trans formative power of these enterprises to drive sustainable economic growth, foster job creation, and

promote inclusive development across the country. As we navigate through the evolving economic landscape, it is essential to recognize and leverage the catalytic role of MSMEs in shaping a brighter and more prosperous future for all.

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