

MSME and its impact on Indian Economy with special reference to MSMED Act 2006

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Abstract: Micro, Small & Medium enterprises have pivotal importance in the development of an economy. They are key supporters of the gross domestic product (GDP) in terms of export promotion and import substitution. MSMEs are noteworthy work generators after agricultural sector. As per latest information, near about 51 million working enterprises employed over 117 million people and contributed nearly 8% to India's total GDP. Despite the fact that it contributes more to the development of economy, the part has been confronting different obstacles in India since long. The Government of India has found a way to defeat such imperatives. It has passed Micro, Small and Medium Enterprises Development (MSMED) Act 2006 which got enormous changes this part. In India, before the sanctioning of this Act, little businesses were done including tiny, cottage and traditional enterprises. This act segregated the medium enterprises three tiers namely micro, small and medium. It also develops legal framework mechanism at the national level as well with balanced representation of stake holders in three categories of enterprises with a wide range of all functions. Keeping in view the urgent role performed by the MSMEs in our economy, the current study explains the feature of MSMEs Act and also highlights the performance of MSMEs before and after the MSMED Act 2006. The examination time frame uncovers that there is an outstanding development has been appeared by the MSME area which has been a main supporter for trade, employment and GDP in India. However, in this study, all statistical information are collected from the different government agencies.

Key Word: GDP, MSME, Economic Growth and Development, Export & Import.

I. Introduction

MSMEs are instruments that help to achieve economic growth and development to create employment as well as it is a tool for poverty reduction and enhance the rural development in the country. It encourages new ideas and increase the entrepreneurial skills. These are flexible enough for adapting rapidly changing demand in the market environment. MSMEs help in diversifying economic activity, and make significant contribution to industrial development and exports. Thus, the establishment and promotion of MSMEs across the world has assumed strategic importance. It contributes approximately 45 percent of the output to manufacturing sector and nearly 40 percent of the total exports of the country. It facilitates near 117 million of employment opportunities to the people throughout the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India.

II. Literature Review

Various empirical studies have been conducted from time to time to examine the different aspects of growth pattern and performance of small scale industrial sectors in India and in this context; important studies are reviewed below in a chronological order.

Mali (1998) observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.

Bala Subrahmanya (2004) investigated the impact of economic reforms on small scale industries. He mentioned that small scale sector has faced constraints in term of growth of units, employment, output and exports. He recommended that small scale industries in India should improve the technology and financial infrastructure thereby this sector can compete at the international level.

Sonia and Kansai Rajeev (2009) analyzed how far the globalization has had an impact on the MSMEs. They considered the period of study from 1973-74 to 2008-09. They analyzed the scenario before the liberalization era and as well as after the liberalization era. They analyzed the MSMEs on the basis of growth in the number of units, total production, employment generated by this sector and total contribution in exports.

Their study concluded that the MSME sector has shown a better growth rate in all these parameters in the pre-liberalization era as compared to post liberalization era.

Dixit and Pandey (2011) applied co-integration analysis to examine the causal relationship between SMEs output, exports, employment, the number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP

Shastri, et al (2011). Analyzed the implications of globalization and domestic economic liberalization for small-scale industries and analyses its growth performance in terms of units, employment, output and exports. They concluded with policy recommendations to ensure the sustenance and competitive growth of small scale industries in India.

Vasu and Jayachandra (2014) studied the growth and development of MSMES in India. They observed that this sector plays a significant role in terms of balanced and inclusive growth. They also highlighted the prospects of this sector in India.

III. Methodology

This paper is completely relying on secondary data gathered from various sources such as statistical abstracts of India, All India Census of MSMEs, Annual reports of Ministry of MSMEs as well as reports of various departments of Government of India etc. Annual growth rate and compound annual growth rates were used to analyse the data.

MSMED Act, 2006

The Micro, Small and Medium Enterprises Development (MSMED) Act has become operational from October 2006. Being a comprehensive legislation for the promotion, development, and enhancement of competitiveness of the MSME sector, a number of measures were provided in the Act for enhancing competitiveness of SMEs, and for enabling the enterprises to avail the benefits of global markets.

Under the Act, the enterprises have been categorized into those engaged in (i) manufacturing, and (ii) providing

/ rendering of services. Both categories have been further divided into micro, small and medium enterprises, based on their investment in plant and machinery (for manufacturing) or in equipment (in case of service enterprises) as shown in the below Table.

Table1: Classification of MSMEs by Investment Limit (in Rs. million)

Category of Enterprise	Manufacturing (in plant & machinery)	Service (in equipment)
Micro	up to 2.5	up to 1.0
Small	2.5 to 50	1 to 20
Medium	50 to 100	20 to 50

Source: Government of India (2006), MSMED Act, 2006.

The Act provides for a statutory consultative mechanism at the national level with wide representation of all stake-holders, and an advisory committee to assist the National Board and the Centre and State governments. The other features include: (i) establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises, (ii) notifications of schemes / programmed for this purpose, (iii) progressive credit policies and practices, (iv) preference for government procurement to products and services of micro and small enterprises, (v) problem of delayed payments to MSEs, and also (vi) simplification of the process of closure of business by all the three categories of enterprises.

A bill was introduced in the Parliament in May 2015 to revise investment limits upwards for the MSME sector in the near future. As per the suggested investment limits, in manufacturing, micro can go up to 50 lakhs, small up to 10 crores, and medium up to 50 crores. In respect of a service enterprise, micro can go up to 30 lakhs, small up to 5 crores, and medium up to 20 crores. The coverage is, thus, being enlarged with emphasis on adoption of advanced technology, technology upgradation, and technology transfer, and improvement in quality.

Growth and Performance of MSME Sector Prior to MSMED Act 2006 (1991-2006)

Micro, Small and Medium Enterprise (MSME) sector, also known as Small and Medium Enterprise (SME) sector has a prominent role to play in ensuring that growth is inclusive and regionally balanced. In the context of liberalisation from 1991, the sector has been integrating itself with globalisation and global trends in a phased manner as part of the overall strategies adopted for industry and trade at the national level. The liberalisation policies of the government provide the small and medium enterprises challenges and opportunities.

The challenges arise in the form of competition and reduced protection, whereas opportunities arise in the form of better technology, scope for technical collaborations, availability of a variety of raw materials and components through global sourcing, guaranteeing better quality and means of higher efficiency and productivity.

Table 2: Performance of MSME sector under Pre MSMED Act 2006 (1991-2006)

Year	Total Working Enterprises (In Millions)	Employment (In Millions)	Market Value of Fixed Assets (In Billion)	Gross Output (In Billion)
1990-91	6.79	15.83	935.55	788.02
1991-92	7.06 (4.07%)	16.69 (5.46%)	1003.51 (7.26%)	806.15 (2.30%)
1992-93	7.35 (4.08%)	17.48 (4.70%)	1096.23 (9.23%)	844.13 (4.71%)
1993-94	7.64 (4.05%)	18.26 (4.46%)	1157.97 (5.63%)	987.96 (17.03%)
1994-95	7.96 (4.07%)	19.14 (4.80%)	1237.90 (6.90%)	1221.54 (23.64%)
1995-96	8.28 (4.07%)	19.79 (3.41%)	1257.50 (1.58%)	1477.12 (20.92%)
1996-97	8.62 (4.07%)	20.59 (4.01%)	1305.60 (3.82%)	1678.05 (13.60%)
1997-98	8.97 (4.06%)	21.32 (3.55%)	1332.42 (2.05%)	1872.17 (11.56%)
1998-99	9.34 (4.07%)	22.06 (3.47%)	1354.82 (1.68%)	2104.54 (12.41%)
1999-00	9.72 (4.06%)	22.91 (3.88%)	1399.82 (3.32%)	2337.60 (11.07%)
2000-01	10.11 (4.07%)	23.87 (4.20%)	1468.45 (4.90%)	2612.97 (11.78%)
2001-02	10.52 (4.07%)	24.93 (4.44%)	1543.49 (5.11%)	2822.70 (8.02%)
2002-03	10.95 (4.07%)	26.02 (4.36%)	1623.17 (5.16%)	3148.50 (11.54%)
2003-04	11.39 (4.07%)	27.14 (4.31%)	1702.19 (4.86%)	3645.47 (15.78%)
2004-05	11.86 (4.07%)	28.26 (4.11%)	1786.99 (4.98%)	4297.96 (17.89%)
2005-06	12.34 (4.07%)	29.49 (4.37%)	1881.13 (5.26%)	4978.42 (15.83%)

In the post liberalization period, the sector has observed significant changes. From a protective environment in the pre-economic liberalization period with help of a wide range of concessions, incentives and institutional facilities, the focus shifted to promoting them through competition, both domestic and international. The effect of this change can be seen from the below table. In 1991, there were 6.79 Million units in the country which increased to 12.34 Million units by 2005-06 (Ravi, 2009). Also the gross production increased to 4978.42 Billion from 788.02 Billion in the same period. An important observation is that though the number of units, manpower and investment doubled during this phase, the gross output increased by almost 6.3 times.

Growth and Performance of MSME Sector Post MSMED Act 2006

MSMEs are, at present, operating in wide variety of sectors such as manufacturing, trade and services and there by constitute a formidable component of country's industrial production. The year MSMEs reached at a level on the optimum utilization of available domestic resources and produces quality products and services.

Table 3: Growth and Performance of MSME sector Post MSMED Act 2006

Year	Total Working Enterprise (In Lakh)	Employment (In Lakh)	Market Value of Fixed Assets (In Crore)
2005-06	123.42(4.07%)	294.91 (4.37%)	188113 (5.26%)
2006-07	361.76† (-193.11%)	805.23† (-173.04%)	868543.79* (-361.71%)
2007-08#	377.37(4.32%)	842.00 (4.56%)	920459.84 (5.97%)
2008-09#	393.70(4.33%)	880.84 (4.61%)	977114.72 (6.15%)
2009-10#	410.82(4.34%)	921.79 (4.64%)	1038546.08 (6.28%)
2010-11#	428.73(4.35%)	965.15 (4.70%)	1105934.09 (6.48%)
2011-12#	447.64 (4.41%)	1011.69 (4.82%)	1182757.64 (6.94%)
2012-13#	467.54 (4.44%)	1061.4 (4.91%)	1268763.67 (7.27%)
2013-14#	488.46 (4.47%)	1114.29 (4.98%)	1363700.54 (7.48%)
2014-15#	510.57 (4.52%)	1171.32 (5.11%)	1471912.94 (7.93%)

The figures in brackets show the percentage growth over the previous year. The data up to year 2005- 06 is related to Small Scale Industry post which data with reference to MSMEs are being compiled.

Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted from †Economic Census 2005, Central Statistics Office, M/o SPI and *4th All India Census of MSME, unregistered sector.

Table shows the immediate impact of the MSMED Act, 2006. Inclusion of service sector and medium enterprises and merging them with SSI sector along with new definitions for categorization of enterprises were some of the major results of the act. The Fourth all India Census was done in the light of these new changes and included both, registered and unregistered units. To find out the trend of growth and performance of MSME sector and to understand the impact of the act, SSI data of 2005-06, just prior to the MSMED Act, 2006, has been also taken.

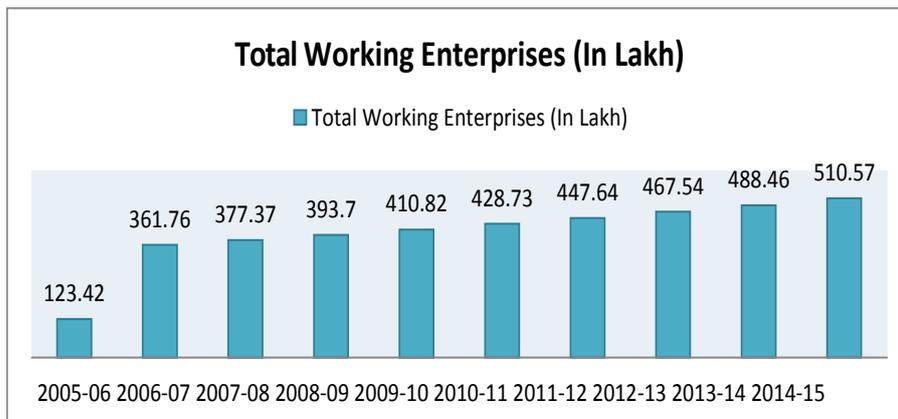


Figure 1: Total working MSMEs (In Lakh)

Number of Enterprises: After Implementation of MSMED act 2006, the numbers of working enterprises significantly increased. In 2006-07 the number of working enterprises was 36.18 Million which increased to 51.05 Million in 2014-15, average growth rate in number of units during this period was 4.35percent.

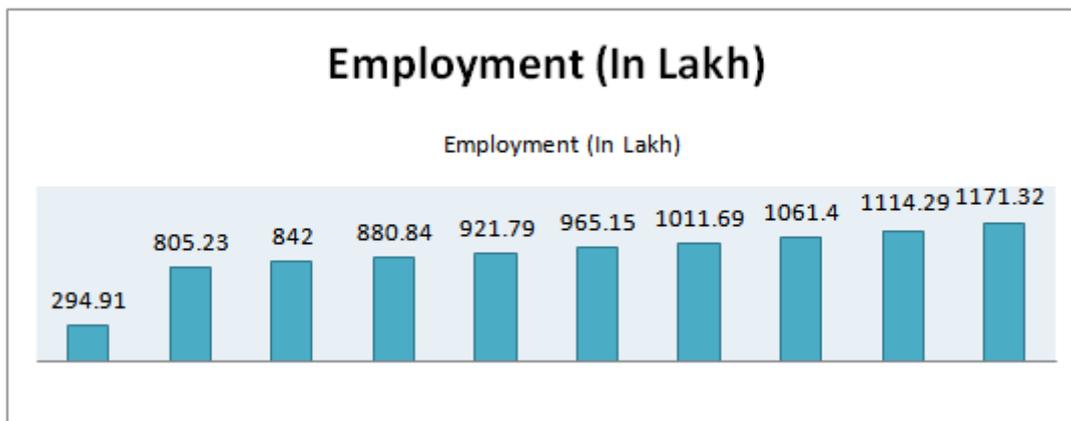


Figure 2: Total Employment MSMEs (In Lakh)

Employment Generation: The number of employment generated by MSME sector was 80.52 Million in 2006-07 which increased to 117.13 Million in 2014-15. During this period the annual growth registered was in the range of 4.5 to 5.11 percent, year on year.

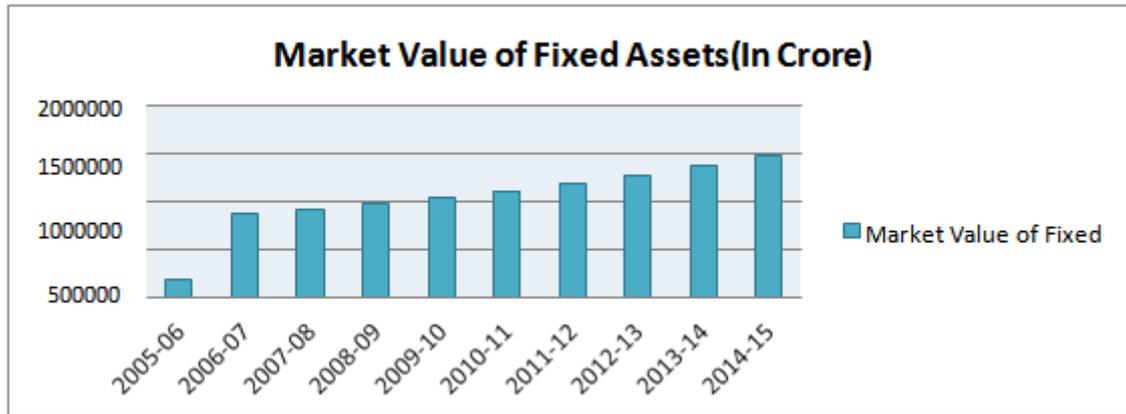


Figure 3: Total Market Value of Fixed Asset (In Crore)

Fixed Investment: The market value of fixed assets or total capital employed was 8685.48 Billion in 2006-2007. In 2014-15, the total capital employed in the MSME sector was 14719.12 Billion approximately.

Table 4: Real Growth Rates of GDP & Index of Industrial Production (2000-16) (in per cent)

Year	Real GDP	Total Industry	Manufacturing	MSE Sector
1	2	3	4	5
2000-01	4.4	5.0	5.3	8.2
2001-02	5.8	2.7	2.9	6.1
2002-03	3.8	5.7	6.0	8.7
2003-04	8.5	7.0	7.4	9.6
2004-05	7.5	8.4	9.2	10.9
2005-06	9.5	8.0	8.9	12.3
2006-07	9.6	12.9	15.0	12.6
2007-08	9.3	15.5	18.4	13.0
2008-09	6.7	2.5	2.5	13.1
2009-10	8.6	5.3	4.8	13.7
2010-11	9.3	8.2	8.9	13.6
2011-12	6.2	2.9	3.0	18.5
2012-13	5.6	1.1	1.3	14.0
2013-14	6.6	-0.1	-0.8	12.0
2014-15	7.2	2.8	2.3	17.0
2015-16	7.6	2.4	2.0	na

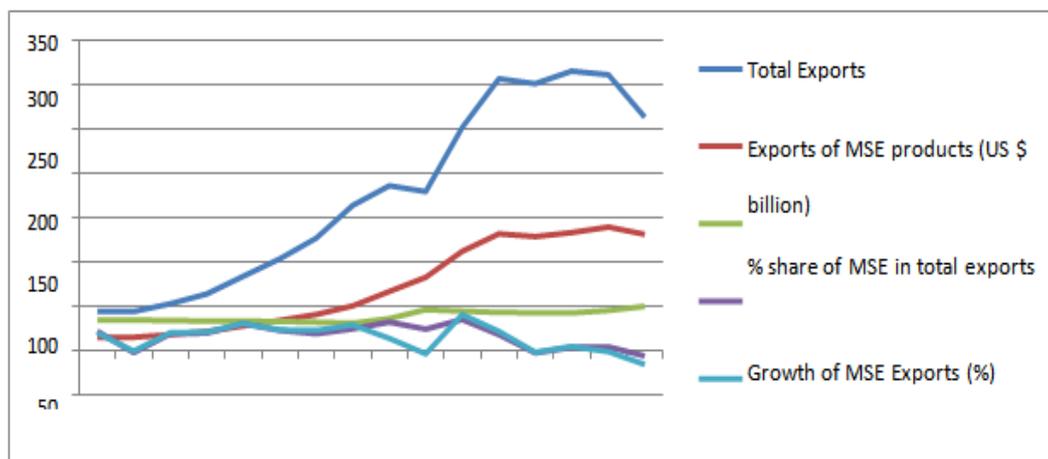


Figure 5: Exports from MSEs in Relation to Total Merchandise Exports (2000-16)

IV. Conclusion

In a nutshell, we can state that the MSMEs have played a crucial role in the development of the Indian economy post the trade reforms in 1991 and MSMED Act, 2006. The Sector has contributed significantly to the GDP and also played critical role in creation of jobs and exports. The Indian economy is expected to grow by over 8 per cent per annum until 2020 and can become the second largest in the world, ahead of the United States, by 2050, and the third largest after China and the United States by 2032. In this context it is very important to examine the role of MSMEs for economic growth of India. Hence it is essential on the part of the government to take careful decisions' and the policy implementation to overcome the problems of MSME Sector and achieve set goals in the sector. MSMED act 2006 was the one of the important measure taken by the government to uplifting the MSME units.

This Act gave liberty to already existing small industries to upgrade themselves to medium units according to the ceilings in investment and take benefit of the various facilities. Registration of MSMEs under this Act was not made an obligation and the registration part was replaced by memorandum. Now MSMEs can avail the benefits of the Act as soon as they are setup. This Act also provides the hassle free movement of goods and services produced by MSMEs from one place to another. Another major benefit that the MSMEs get under this Act is quick dispute resolution. MSME facilitation Councils is setup and they help in quick settlement of disputes of this sector. The section 23 under the MSMED Act encourages the various procurement agencies to make timely payments to MSMEs. Even if an MSME unit wants to go for liquidation, it can do it easily under this Act.

Analysis of performance of MSMEs in India reveals that MSMEs have performed well over the years. Analyzing the data from the year 2006-07 to 2014-15, clearly indicated that how the MSME sector has grown since this Act came into effect. The total number of units has shown compound annual growth rate (CAGR) is 19.42 % over the last 8 years. Employment under this sector has also shown growth rate of 18.82%. Similarly, Market value of fixed assets has reflected a growth rate of 30% .To sum it up, it is quite evident that MSMED Act, 2006 has had a positive impact on the growth of small industries and has benefited this sector with various facilities under the Act. Institutional framework and policy specifications are essential factors in helping the evolution and success of MSMEs.

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