

Status of Micro Small and Medium Enterprises (MSME) in India: A Regional Analysis

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Abstract: In developing countries, like India, most of the space is not always suitable for set up of large investments and such type of lacuna can be minimized by lesser amount of investment. With the advent of planned economic structure of Indian Democracy, Micro, Small and Medium Enterprises (MSMEs), widely accepted “engine of economic growth of India” have gained attention of policy makers due to its potential of generating large output from a lower investment. This labour intensive sector has the capacity of reducing regional imbalances through income and employment generation, economic independence of rural folk and helps in sustainable development. Numerous registered and unregistered enterprises are mushrooming in India but there are also spatial inequalities too. In India, states like Tamil Nadu, Uttar Pradesh, Gujarat and West Bengal are the leading states in MSME sector. MSMEs in India are very much heterogeneous. The present paper will focus on existing scenario and trends of MSME in India. There is state wise variation in various sort of MSME. Some states are leading in terms of registration and some are in unorganized sector. Thus spatial variation clearly exists in India in terms of micro, small and medium enterprises.

Keywords: Employment, Enterprise, MSME, Regional Disparity, UAM.

Date of Submission: 16-09-2017

Date of acceptance: 25-09-2017

I. INTRODUCTION

Micro, small and medium enterprises (MSMEs) are considered as the catalyst of economic development and social development of developing countries (Khan & Dalu, 2015). MSME may be considered as important indicator of development of India, one of the leading developing countries of the world. Indian economy is very much dependent on micro, small and medium enterprises (Biswas, 2016). This sector has the ability of reduction of regional disparity through income generation, creates employment opportunities, reduce poverty and above all induce regional development. Apart from creating employment opportunities at comparatively lower cost compared to large industries, it initiate industrialization in less developed areas, minimize regional imbalance and persuade equitable distribution of growth and development.

MSMEs are supplement to large scale industries and considered as ancillary to them (Muthu, 2015). MSMEs have the opportunity of generation relatively large amount income with lower amount of investment (Sen & Selim, 2015). Thus the prime aim of the government was to develop an equitable economic development through relatively less amount of investment also in those areas scope where large scale input is not possible or available. MSME support entrepreneurs for development of existing enterprises and encourage entrepreneurs for new establishment.

Knowledge of present status and scenario of MSME in India is very important as economic as well as research point of view. India has a very ancient history of entrepreneurship; it is as old as our civilization of Indus, Vedic and Harappa. India handicrafts, handloom were well acclimatized to the ancient world. Thus, this paper will describe the present scenario of MSME in India.

1.1 MSME IN GLOBAL PERSPECTIVES

Due its crucial role in employment generation, wealth creation, innovation development, poverty alleviation, social cohesion and local and regional development, micro, small and medium scale enterprises are regarded increasingly as important (Bidja & Mandizvidza, 2017). MSME is basically successfully flourished in developing countries for example Cameroon, Uganda, Malawi, Nigeria etc. But developed countries are also not lagging behind. Mead and Liedholm (1998) mentioned that there is a saying that eight out of ten jobs are created in the by small business in USA. Japan, one of the most developed countries of the world, small and medium enterprises has occupied a very significant percentage of private industrial workers in its industrial structure (Bannock, 1969). USA, Japan, Germany, Taiwan, Europe, South-East Asia, Brazil, China and a many

of both developed and developing countries are putting their planned efforts for the development of these enterprises to speed up their economic progress (Nagaraja, 2013). Government of Malawi has recognized MSME sector as one of the major source of employment generation (Daniels & Ngwira, 1993). Enterprises except large ones are also dependent on macroeconomic activities as when overall economy is going well, MSME is also follow the same path and vice versa (Mead & Liedholm, 1998).

There are two types of enterprises in MSME, viz. manufacturing sector and service sector and the subdivision of micro, small and medium enterprises are based on the following criteria (see Table 1).

Table 1: MSME Definition in India (Micro Small Medium Enterprise Development Act, 2006)

Type	Enterprises	
	Manufacturing Sector (Investment in Plants and Machinery)	Service Sector (Investment in Equipments)
Micro	Up-to Rs. 25 lakhs	Up-to Rs. 10 lakhs
Small	More than Rs. 25 lakhs up-to Rs. 5 crores	More than Rs. 10 lakhs up-to Rs. 2 crores
Medium	More than Rs. 5 crores up-to Rs. 5 crores	More than Rs. 2 crores up-to Rs. 5 crores

Source: The Gazette of India, 16th June, 2006

Indian MSME sector is very much heterogeneous whether in terms of investment or product variety or services or nature of technology is used, whether registered or unregistered units etc. According to Annual Report of MSME 2016-2017, the Ministry of MSME is playing a pivotal role in continuous assisting all the states to encourage entrepreneurship, employment generation, livelihood opportunities and upgrade the competitiveness of MSME in the changed economic arena. As growth (with equity) process must be always pro-poor or pro-disadvantaged section of the society. Thus for a faster and inclusive growth, development of MSME is one of the best options (Nagaraja, 2013).

II. OBJECTIVES

Objectives of the present paper are to focus on the following:

- To focus on performance and growth of MSMEs
- To find out nature of spatial disparity of MSME in terms of registration, output generation and employment generation

III. METHODOLOGY

Present paper is descriptive and analytical both and based on secondary data. From that perspective this paper is quantitative and qualitative both. Data sources are following:

- Fourth All India Census Report of MSME
- Annual Report of MSME (Year wise)
- The Gazette of India
- Websites of Ministry of Micro, Small and Medium Enterprises
- Entrepreneurs Memorandum Part-II data on MSME sector (2007-2015)
- Udyog Aadhar Memorandum (UAM) replacing EM-II

Various help of graphs, charts, trend lines, maps are taken to describe the condition schematically. Maps are drawn with help of Arc-GIS software 10.3 version.

IV. PERFORMANCE AND GROWTH OF MSME IN INDIA

MSME in India always has shown a progressive and healthy growth. Roles of MSME in Indian economy are very crucial. It is very important for the national aims of growth with equity and inclusion. It ensures maximum opportunities for both jobs and self or group employment (Srinivas, 2013). From 2006 onward when the Micro Small and Medium Enterprises Act was introduced, MSME in India always has shown a progressive and healthy growth. If we look at the total working enterprises from 2007 to 2015 (Fig. 1), its upward moving trend will be very clear.

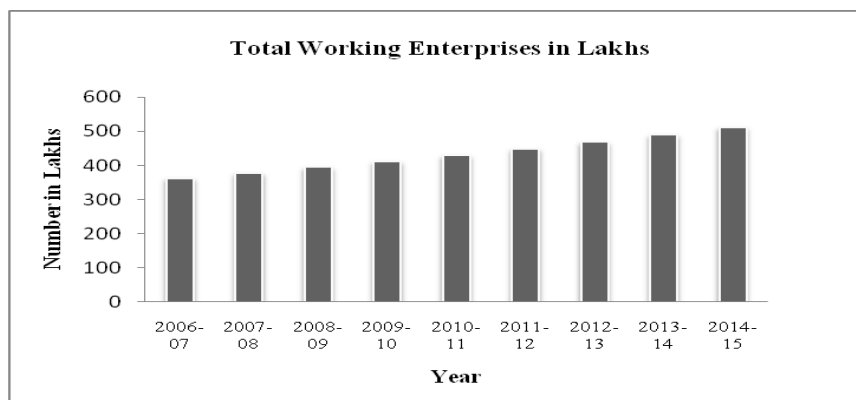


Figure 1: Total working enterprises (in lakhs) in India (2007-2015)

Source: Annual Report, 2016-2017 (Ministry of MSME, Govt. of India)

In spite of various kinds of financial crisis and economic shocks that have influenced the economy, MSME has resiliently withstood with the economy. Fig. 2 presents there are fluctuations in growth rate of EM-II filling. Year 2012 registered a maximum increase followed by unexpected decreasing growth and again in 2015 to 2016 it has maintained upward trend as it becoming the pivotal sector in India economy. Thus inspite of up-downs in growth rate of registration in MSME sector, correlation of determination value R^2 is about 0.38 and it is a positive trend.

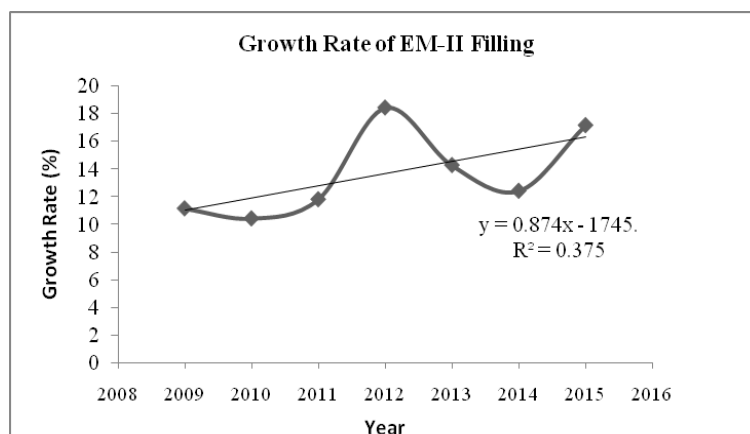


Figure 2: Growth Rate of EM-II Filling in India (2007 to 2015)

Source: Annual Report, 2016-2017 (Ministry of MSME, Govt. of India)

4.1 Contribution of MSMEs in Gross Domestic Products (GDP)

GDP is considered as the very significant single economic parameter to measure the pattern of economic development and growth of a spatial unit. It's the revenues earned by respective state government from its different sector like primary, secondary and tertiary sectors. Henceforth an increase in GPD obviously signs of economic growth of any area. GDP is the reflection of economic development of a state and well being of its people and it also gives an idea of regional disparities over space. Role of MSME in Indian economy is enormous. With decentralized economy, contribution of micro, small and medium enterprises is increasing year by year. MSMEs contribution to total gross domestic products shows an increasing trend. Both the manufacturing and service sectors of MSME show increasing contribution to total GDP (see Table 2).

Table 2: Contribution of MSME in Total GDP (at 2004-2005 prices) in India

S L No	Year	Share of MSME Sector in Total GDP (%)		
		Manufacturing Sector MSME	Services Sector MSME	Total
1	2006-2007	7.73	27.73	35.13
2	2007-2008	7.81	27.81	35.41
3	2008-2009	7.52	28.60	36.12
4	2009-2010	7.45	28.60	36.05

5	2010-2011	7.39	29.30	36.69
6	2011-2012	7.27	30.70	37.97
7	2012-2013	7.04	30.50	37.54

Source: 1. Fourth All India Census of MSME 2006-07,
 2. National Accounts Statistics (2014), CSO, MOSPI and
 3. Annual Survey of Industries, CSO MOSPI

Contributions of manufacturing units are showing a decline trend over year. But service sector depict on an average an upward movement. The reason may be that people are more prone to invest in service sector rather manufacturing units. Investments in plants and machineries are very high in all the micro, small and medium manufacturing units.

4.2 Registered and Unregistered Sector:

There are two types of sectors running under MSMEs. One is Registered and the other one is Unregistered. Enterprises that registered with District Industries Centre (by filling up Entrepreneur Memorandum II) in the state/ UTs, Khadi and Village Industries Board as on 31-03-2007 and factories under the coverage of section 2m (i) and 2m (ii) of the factories Act, 1948 used for annual survey of industries (Muthu, 2015) are included in Registered MSMEs. Again all enterprises covering both in manufacturing and providing/ rendering services but not registered with District Industries Centre (that means no case of filling up EM-II) on or before 31-03-2007 are considered as Unregistered MSMEs. In 2006-07, India registered 15.65 lakhs enterprises whereas unregistered MSMEs constitute 346.11 lakhs (4th All India Census on MSME, 2006-2007). There are enormous anomalies regarding state-wise distribution registered and unregistered sector. In terms of registered sector, Tamil Nadu holds the leading position followed by Gujarat and Uttar Pradesh. Other states show relatively lower number of enterprises. The scenario for unregistered sector is quite different. Uttar Pradesh stands first with 42.15 lakh of enterprises followed by West Bengal (34.21 lakhs) and Tamil Nadu (30.79 lakhs). Fig. 3 clearly depicts the state-wise distribution of organized and unorganized sectors. In most of states unorganized sector leads the organized sector.



Figure 3: Distribution of Registered and Unregistered MSME, India
 Source: Final Report of Fourth All India Census of MSME, 2006-2007

Calculations are done by Author.

Last Census on MSME has published annual report on registered and unregistered sector. In registered sector Tamil Nadu has taken the leading position creating 2.34 lakh of working enterprises (14.95 % of India) followed by Gujarat 2.3 lakh (14.70 %), Uttar Pradesh 1.88 lakh (12 %)

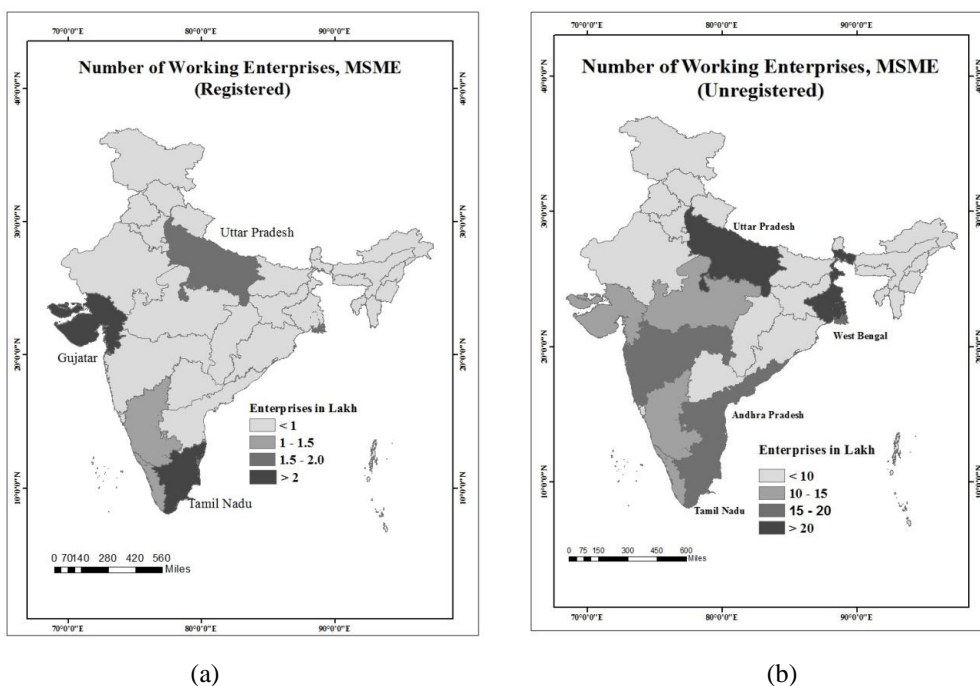


Figure 4: Zonal Distribution of Number of Working Enterprises of MSME in India (Registered and Unregistered)

Source: Annual Report on MSME, (Registered and Unregistered) Fourth Census on MSME, 2007

Registered working enterprises in MSME are higher in Gujarat, Tamil Nadu (above two lakhs), Uttar Pradesh, Karnataka and Kerala have working enterprises above one lakh (see part ‘a’ of Fig. 4). In unregistered MSME Uttar Pradesh and West Bengal are the leading states (above twenty lakhs), central, southern and south-western states like Tamil Nadu, Andhra, Maharashtra (see part ‘b’ of Fig. 4). Thus unregistered or informal sector generates more enterprises than registered MSME.

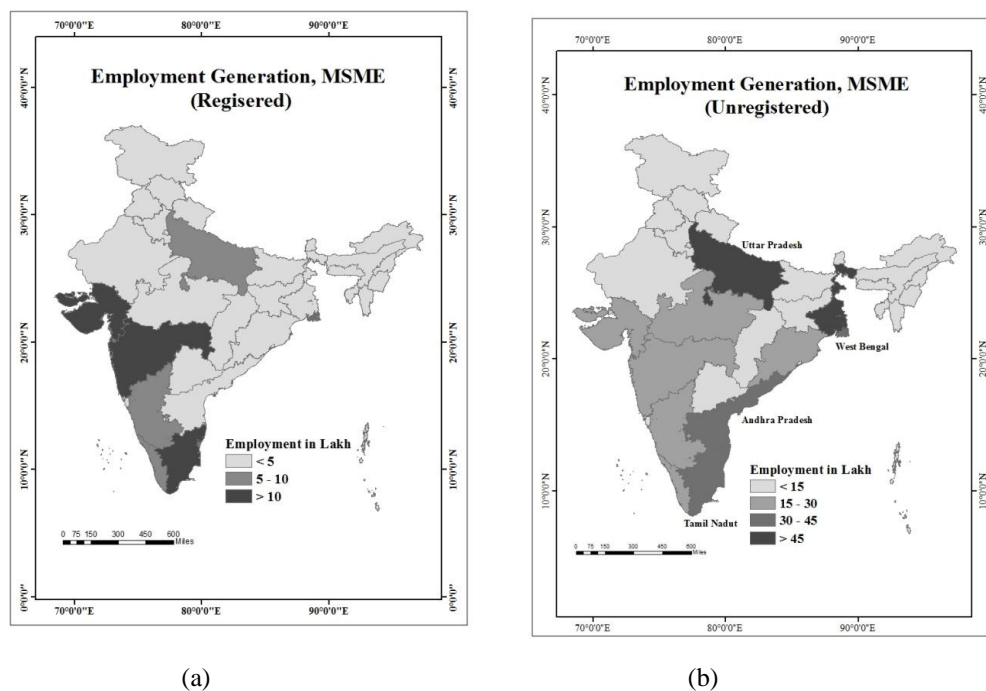


Figure 5: Zonal Distribution of Employment Generation of MSME in India (Registered and Unregistered)

Source: Annual Report on MSME, (Registered and Unregistered) Fourth Census on MSME, 2007

Leading states in terms of employment generation in registered MSME are Gujarat, Tamil Nadu (employment above ten lakhs), Uttar Pradesh, Karnataka and Kerala have produced employment within ten lakh (see plate (a) of Fig. 5). In unregistered MSME Uttar Pradesh and West Bengal are the leading states (employment above forty lakhs), central, southern and south-western states like Tamil Nadu, Andhra, Maharashtra (see plate (b) of Fig. 5). Thus unregistered or informal sector generates more employment than registered MSME.

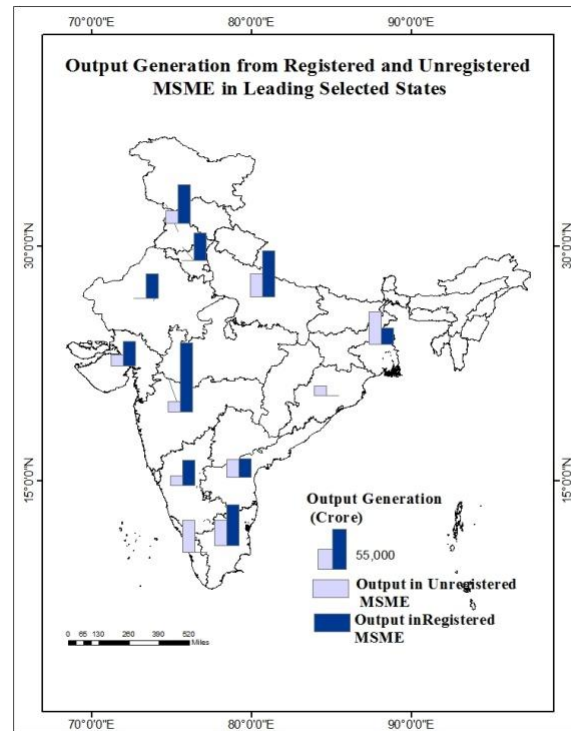


Figure 6: Leading States in Output Generation from Registered and Unregistered Enterprises
 Source: Annual Report on MSME, (Registered and Unregistered) Fourth Census on MSME, 2007

Fig. 6 depicts the output generation of both registered and unregistered MSME, but the registered sector has generated higher output in crore than unregistered sector. Maharashtra is leading in registered MSME (110705 crores) followed by Uttar Pradesh (74065 crores), Tamil Nadu (65281 crores). Output in unregistered MSME is highest in West Bengal (51973 crores), Kerala (50699 crores), Tamil Nadu (4 crores), Uttar Pradesh, Andhra etc. Thus though number of working enterprises and employment generation in registered sector is lower but it generated higher income than unregistered sector. Thus unregistered sector is comparatively more labour intensive as well generates less revenue.

4.3 Employment Generation:

Employment generation through MSME can be shown by analyzing Entrepreneurs Memorandum- II (Now UAM) and also the Prime Minister Employment Generation Programme (PMEGP), My MSME, implemented by Khadi and Village Industries Commission (KVIC) at national and state level. These two aspects will be discussed separately.

4.3.1 Entrepreneur Memorandum Part II (Currently Udyog Aadhar Memorandum, UAM)

A way to know how many enterprises there are, Entrepreneur Memorandum-II (EM-II) will help to get information about the fact. EM-II gives us the data related to how many entrepreneurs are registered with District Information Centre (DIC). In September, 2015, EM-II is replaced by Udyog Aadhar Memorandum (UAM). Its main aim is to promote ease for doing business. Since UAM has introduced recently, it will give us the present scenario of India as well of the states. But EM-II will help to get spatial scenario of states.

EM-II registration in MSME has shown a positive trend from 2007 to till present. EM-II A cumulative from 2017 to 2015) of micro, small and medium enterprises are shown in Fig. 7. All the three types of enterprises have shown an increasing trend. Micro enterprises have occupied the leading position as amount of investment is low and many people can set up their own enterprises. All India number of EM-II filings (in Lakhs) has always shown a positive trend that is from 1.73 lakhs in 2007-2008 to 4.25 lakhs in 2014-2015.

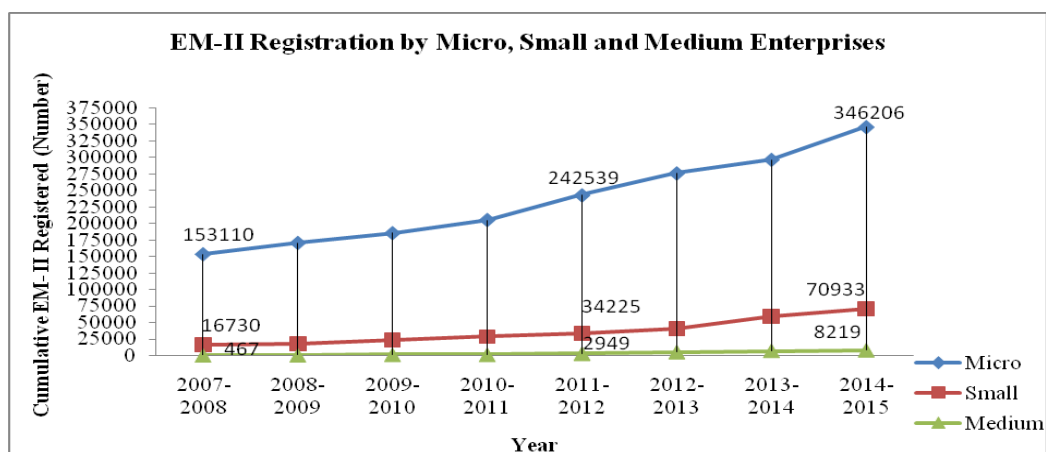


Figure 7: Trend of EM-II Registration, MSME (2007-2015)

Source: The State/UT Commissionerates/Directorates of Industries & MSME-Development Institutes.

Calculation is done by author

Fig. 8 is clearly showing a zonal distribution of cumulative EM-II registration in India. Uttar Pradesh, Gujarat and Tamil Nadu have occupied leading position. Western and south-western states are positioned in second group of EM-II filling. The northern, north-eastern and eastern grouped in the lowest filling group of EM-II registration in from year 2007 to 2015.

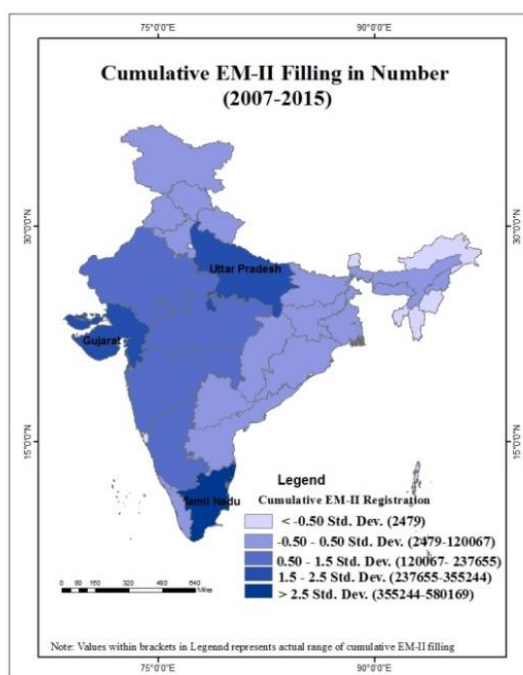


Figure 8: Map showing cumulative EM-II filed in India (2007-2015)

Table 3: Leading States in Terms of percentage Share of EM-II Filed by MSMEs, 2014-2015

Sl. No.	Name of States	Share of EM-II Filed in %
1	Tamil Nadu	33.64
2	Gujarat	15.08
3	Uttar Pradesh	12.27
4	Maharashtra	8.70
5	Karnataka	6.76
6	Madhya Pradesh	4.68
7	Rajasthan	4.39
8	West Bengal	3.58

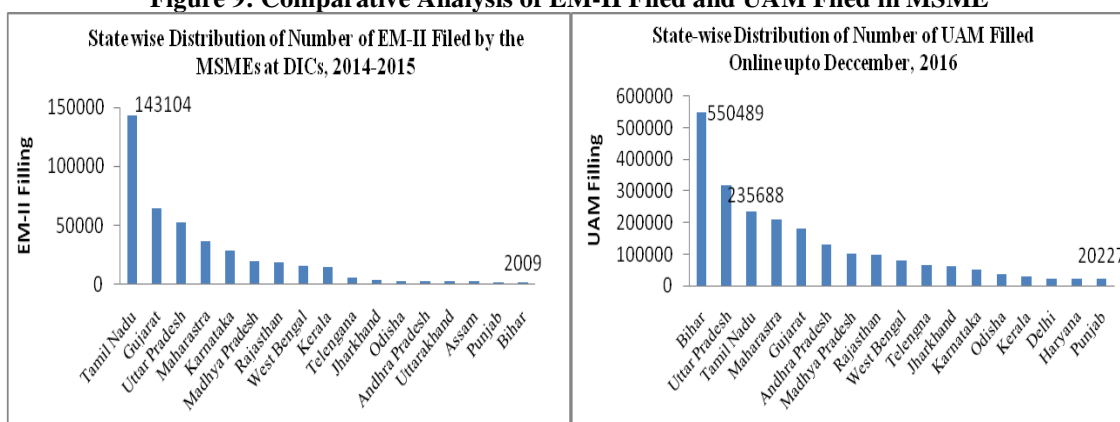
9	Kerala	3.50
10	Telangana	1.36
Total		93.96

Source: Entrepreneurs Memorandum (Part-II) Data on MSME Sector (2014-2015)
Development Commissioner (MSMEs), Ministry of MSMEs

Tamil Nadu has occupied first position in terms of EM-II filed by MSME in 2014-2015 followed by Gujarat, Uttar Pradesh and Maharashtra (Table: 3).

If we look at the UAM filling of MSME sector, it will show a drastic change in the scenario. Up-to 2015, when it was EM-II registration at DICs, Tamil Nadu was the leading followed by Gujarat, Uttar Pradesh. But the scene is totally changed when online UAM has replaced EM-II. Now Bihar has positioned at the top in terms of UAM filed, whereas its status was very much deplorable in EM-II registration. Thus being one of the less developed states of India, Bihar has bagged largest number of UAM registration. Uttar Pradesh, Tamil Nadu and Maharashtra comes after-wise. Fig. 9 will make is clearer to draw a comparison.

Figure 9: Comparative Analysis of EM-II Filed and UAM Filed in MSME



Source: Annual report of MSME, 2016-2017, Ministry of MSME
Entrepreneurs Memorandum, Part-II, Data on MSME

State-wise status of UAM registration has shown an increasing trend. As stated earlier scenario of EM-II registration and UAM registration is quite different. In 2017 (March), about 3,074,836 UAM was registered and among them micro enterprise has registered about 90 percent; small and medium enterprises occupied 10 percent and 0.43 percent respectively.

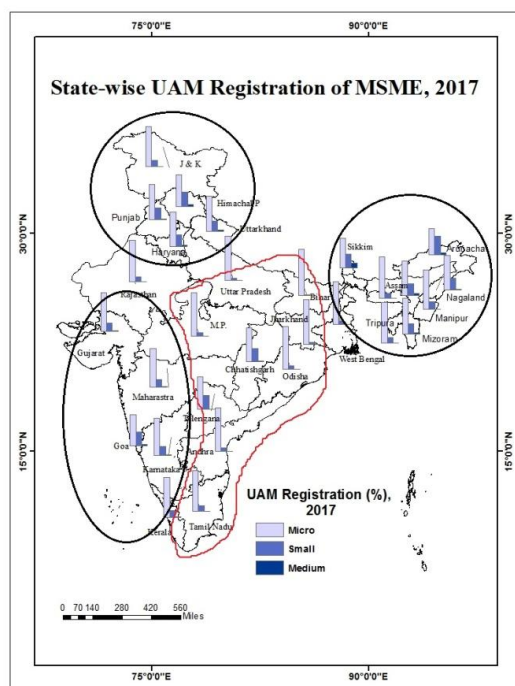


Figure 10: Map of Micro, Small and Medium UAM Registration, 2017
Source: Udyog Aadhar Memorandum, 2017

In India, UAM registration has shown a regional clustering type of phenomena. UAM of micro, small and medium enterprises are shown in percentage terms and it is showing that the north-eastern states have registered UAM in all sectors like micro as well as in small and medium sector also. In the northern states (Himachal Pradesh, Haryana, Uttaranchal and Punjab) and southern-Western states (Maharashtra, Karnataka, Telangana and Goa) have shown registration in micro, small and medium enterprises (marked in black circle in Fig. 10). States like Bihar, Jharkhand, Orissa, West Bengal and Kerala are leading in micro enterprise mostly and it is shown within red area in Fig. 10.

4.3.2 PMEGP

Employment generation by Prime Minister Employment Generation Programme (PMEGP) is implemented with the objectives to generate employment opportunities and increase wage earning capacity in rural as well as urban areas of the country through setting up of new self-employment ventures/projects/micro enterprises.

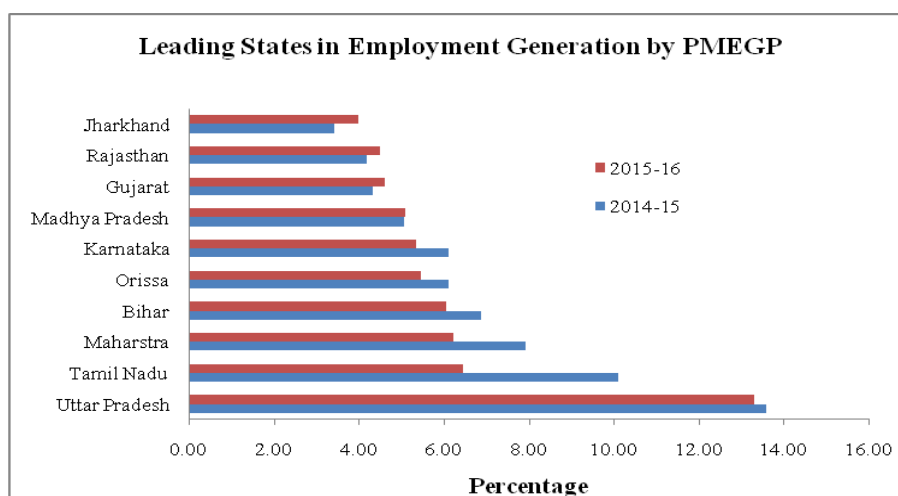


Figure 11: Employment Generation by PMEGP (2014- 2015 and 2015- 2016)
Source: Report of PMEGP, 2016. Govt. of India
Calculations are done by Author.

A closer look at the Fig. 11, saying that rate of employment generation has decrease in the leading states of Uttar Pradesh, Tamil Nadu, Maharastra, Bihar, Orissa, Karnataka whereas most of the states have shown a positive increase in employment generation by this scheme from year 2014 to 2016 (though only ten leading states have shown here). Uttar Pradesh is the leading states in employment generation followed by Tamil Nadu, Maharastra and so on so forth.

V. CONCLUSION

MSME is in the real sense is the engine of economic growth of any country both developed and developing but specially developing countries. It's the silver bullet to eradicate poverty and also a proven way to human wellbeing and quality of life particularly for the poor people (Sengupta & Aubuchon, 2008, Oroso & Muturi, 2013). In Indian economy, MSME is very much diverse and regional heterogeneity persists in all the states. Fourth census on MSME was conducted in 2007 and it was the last one. Therefore data particularly on MSME on a detailed format is not available, though Economic Census does provide information on all sectors including large scale units also. So, there are some data constrains, thus to some extent we have to rely on old data of fourth census on MSME.

Year by year working enterprises whether manufacturing or services are increasing and its share in national or state GDP has also shown increasing trend with some fluctuations. Numbers of working enterprises are higher in informal or unregistered sector and it's playing crucial role in employment generation too. But registered enterprises suppressed unregistered sector in output generation. So we can say that unregistered MSME in some states to some extent is labour intensive and registered sector in other way is capital intensive in some states.

Micro enterprises occupied the leading position naturally in all states but some developed states like Gujarat, Tamil Nadu, and Goa in the south; Himachal Pradesh, Punjab, Haryana in the north and the north eastern states like Arunachal, Mizoram, Manipur, Nagaland and Tripura are improving their small and medium scale enterprises also. States like West Bengal, Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh and Orissa where small and medium enterprises are lesser in number. There is seen a normal path that those states who are leading in working enterprises, creates more employment, generate more income and do registration whether filling EM-II or UAM. Though registration through UAM has shown a rocket speed increase but people are far behind of registration may be due to lengthy process of filling forms or they are not aware at all particularly at the rural set up or they are unwilling to register their units to escape the tax. All states are not capable of utilizing the fruits of MSME.

Inspite of some critical reviews, MSME has act as a catalyst of Indian economy and some proper planning with incentives and assistance for both registered and unregistered sector from central or state government and private agencies as well, will help to boost up the economy very faster. And this in turn will reduce regional disparity and creates regional development.

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IOSR Journal Of Humanities And Social Science (IOSR-JHSS) is UGC approved Journal with Sl. No. 5070, Journal no. 49323.

Papiya Manna. "Status of Micro Small and Medium Enterprises (MSME) in India: A Regional Analysis." *IOSR Journal Of Humanities And Social Science (IOSR-JHSS)* , vol. 22, no. 09, 2017, pp. 72–82.