



# CATEGORY WISE DISTRIBUTION OF MSMEs AND THEIR SHARE OF GDP IN INDIA –A STUDY

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## ABSTRACT:

The importance of MSME has been recognized in recent years in both developed and developing countries for its significant contribution in gratifying various socio-economic objectives such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. They play a crucial role in the industrial development of any country. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy. This sector even assumes greater importance now as the country moves towards a faster and inclusive growth agenda. This paper also examine the category wise distribution of MSMEs and their GDP share imposed by rising competition and necessitated by new initiatives.

**KEY WORDS:** MSMEs, category wise distribution, share of GDP, India

## INTRODUCTION

The Micro Small and Medium Enterprises (MSMEs) sector constitutes an important segment of the Indian economy in terms of its contribution to the country's industrial production, exports, employment and creation of a broad entrepreneurial base. So, it is rightly regarded as the backbone of the modern Indian Economy. With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Their significance has not waned in the wake of LPG and thereafter. They enjoy certain inherent strengths such as lower over-head costs, flexibility in production, informality in labour relations, exploitation of local and latent resources and skills, capacity to execute small orders and to offer customised services. Empirical evidence indicates that small-scale enterprises can be an important vehicle for meeting the growth and equity objectives of developing economies (Ali, Jayasheela & Hans, 2006), and also meet the requirements of hi-tech and environment-friendly global standards.

As per the Micro Small and Medium Enterprises Act, 2006, MSMEs are broadly classified into two categories (a) Manufacturing and; (b) those engaged in supplying services. Both categories of enterprises have been further classified into micro, small and medium and large enterprises based on their investment in plant and machinery for (manufacturing enterprises) or on equipment (in case of enterprises providing/rendering services). According to the MSMEs Act under service enterprises category, micro enterprises is an enterprise where the investment in equipment does not exceed Rs.10 lakh; a small enterprise is one where the investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore; a medium enterprise is that where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore. While for enterprises engaged in the manufacture or production, processing or preservation of goods, a micro enterprise is one where investment in plant and machinery does not exceed

Rs.25 lakh. Small enterprise is one where investment in plant and machinery can be more than Rs.25 lakh but does not exceed Rs.5 crore. In a medium enterprise, the investment in plant and machinery can be more than Rs.5 crore but does not exceed Rs.10 crore (Annual Report Micro, Small and Medium Enterprises, 2008) Before this Act Government defined only Small Scale Industries (SSI), and accordingly “SSI is an industrial undertaking in which the investment in fixed assets in plant and machinery whether held in ownership terms or on lease or by hire purchase, does not exceed Rs.100 lakh”.

The MSMEs – in view of their employment potential and other intrinsic advantages – are found suitable for rural economy and have been promoted on priority. The developed countries have formulated programs for these industries to achieve prosperity. In Japan the growth of small enterprises has provided the base for new society and even today it exhibits industrial excellence, which has astonished the world. The Japanese economy, which was totally destroyed during the War, has regained its strength to an appreciable extent due largely to the efforts of small enterprises and highest labour productivity. Countries in Europe, Asia, Africa and Latin America have formed inspiring and protecting policy framework for promoting small enterprises. Italy, which was once called as the “Sick man of Europe”, has prospered in small industries, which resulted in the rapid growth of the economy and is now called as “Japan of Europe” (Hejamadi, 2000).

More recently, enhancing MSMEs productivity and profitability has been viewed as an effective way of fostering the private sector contribution to the growth and equity objectives of development. MSME play a key role in the industrialisation of a developing country. This is because they provide immediate large scale employment and have a comparatively higher labour-capital ratio; they need a shorter gestation period and relatively smaller markets to be economic; they need lower investments; offer a method of ensuring a more equitable of distribution of income and facilitate an effective mobilisation resources of capital and skill which might otherwise remain unutilised; and they stimulate the growth of industrial entrepreneurship and promote a more egalitarian pattern of ownership and location.

In the light of these facts, this paper makes an attempt to (a) analyse the performance of MSMEs in India, (b) understand the problems and challenges faced by this sector, and (c) suggest some policy measures.<sup>1</sup>

## LITERATURE REVIEW

Although the MSMEs continue to dominate the industrial sector in most of the countries including India, the literature and the studies on their varied functioning are not many especially with reference to changing perspectives. The available research literature rather indicates some missing gaps that need to be addressed appropriately.

**Christopher J. Green, Colin H. Kirkpatrick, and Victor Murinde**, (2006) in their paper have examined the ways in which financial sector development policy might contribute to poverty reduction, particularly by supporting the growth of micro and small enterprises (MSEs). This paper highlights on the changing role of MSEs in the development process and the access of MSEs to informal and formal finance, including the role of microfinance.<sup>3</sup>

**Nanda, Ramana & William R.Kerr** (2009) have expressed the view that financing constraints are one of the biggest concerns impacting potential entrepreneurs around the world. De, Sankar (2009) in his article has viewed that SME’s in India face many challenges, but perhaps none are as difficult as the challenge of financing, both short term and long term.<sup>4</sup>

**K.Vasanth, Majumdar M., K. Krishna** (2012) in their paper have stated that since several successful models of the sustainable SME are gradually evolving, networks of SMEs would become essential for addressing the systemic problems under lying the industrial ecology, enterprise resilience, and global supply chain sustainability. Great Lakes Herald March 2017, Volume 11 Issue No 1 Page 79<sup>5</sup>.

**Export-Import Bank of India**, (2012) has critically analysed the present situation of MSMEs and support systems available in India as well as in the global context. It has suggested that MSMEs in India should have access to alternative sources of capital like angel funds/risk capital etc. and that existing laws should effectively address issues like insolvencies/bankruptcies; need to redefine the ceiling limits to encourage MSMEs to move up the value chain and need for cluster development approach to increase the level of competitiveness.<sup>6</sup>

**Srinivas K T**, (2013) has studied the performance of micro, small and medium enterprises, and their contribution in India’s economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.<sup>7</sup>

**OBJECTIVES:**

1. To study the category wise distribution of MSMEs in India
2. To study the MSME's share of GDP in India

**HYPOTHESES**

1. To study category wise distribution of MSMEs in India is not significant
2. To study the MSMEs share of GDP in India is not significant

**METHODOLOGY:** The study involves a critical analysis of functioning of some micro, small and medium scale enterprises in the country both in manufacturing and service sector and intends to identify the potentialities for growth, opportunities, major issues and challenges experienced by these enterprises. The data are collected mostly from secondary sources by way of access to various Government policies/ programs including published Annual Reports, Journals, Books and available official websites. The primary data are based on analysis of structured questionnaire and interview of entrepreneurs, industry workers and other stake-holders.

**DISTRIBUTION OF ENTERPRISES CATEGORY WISE**

Small and Medium Enterprises (SMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. SMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non-availability of skilled manpower. The Micro, Small and Medium Enterprises (MSME) sector contributes significantly to manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 % of the manufacturing output and 40% of total exports of the country. To make this sector to become more vibrant and significant player in development of the Indian economy the Government of India has taken various initiatives.<sup>2</sup>

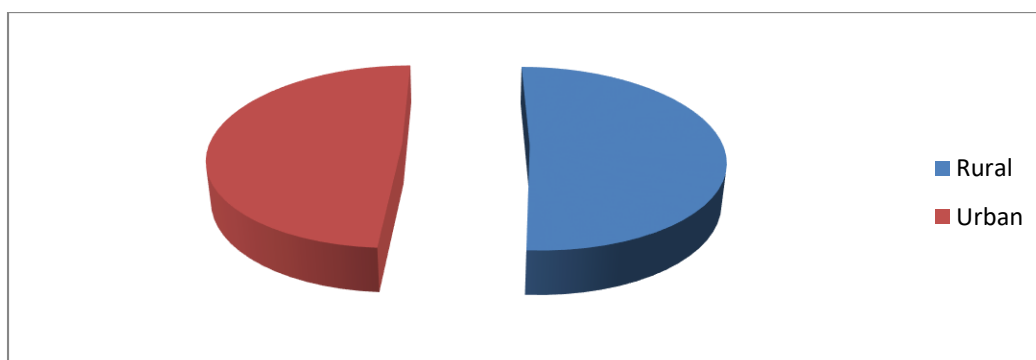
**TABLE -1**  
**DISTRIBUTION OF ENTERPRISES CATEGORY WISE**

(Numbers in lakh)

Sector	Micro	Small	Medium	Total	Share (%)
Rural	324.0	0.78	8 0.01	324.88	51
Urban	306.43	2.53	0.04	309.0	49
<b>All</b>	<b>630.52</b>	<b>3.31</b>	<b>0.05</b>	<b>633.88</b>	<b>100</b>

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, Annual report-2019-20, P.29.

Table -1, figure.1 shows the distribution of enterprises in rural and urban Areas. The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52 % and 0.01 % of total estimated MSMEs, respectively. Out of 633.88 estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural area and 309 lakh MSMEs (48.75%) are in the urban areas.

**FIGURE.1****Distribution of Enterprises Category Wise**

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, Annual report-2019-20, P.29

## THE SHARE OF GDP OF THE MSMEs IN INDIA

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO) the share of GDP of the MSME in India is shown in table -2.

**TABLE -2**  
**THE SHARE OF GDP OF THE MSMEs IN INDIA**

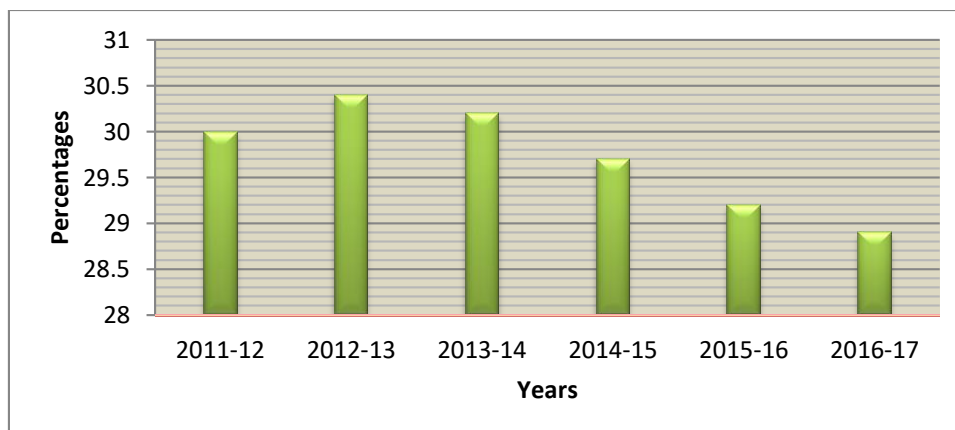
Year	Share of MSME in GDP (in %)
2011-12	30.00
2012-13	30.40
2013-14	30.20
2014-15	29.70
2015-16	29.20
2016-17	28.90

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, Annual report-2019-20, P.27

The share of GDP of the MSME in India was shown in table no-1. The share of GDP of MSMEs little spike increased two consecutive years (2012-13 to 2013-14) 30.40, 3.20 percent. Further the share of GDP of the MSME declined in 2014 to 2017 years. 2014 to 2017 years are not significant Share of GDP of the MSME in India.

**FIGURE-1**

**THE SHARE OF GDP OF THE MSMEs IN INDIA**



Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, Annual report-2018-19, P.27

### RESULT:

1. To study the category wise distribution of MSMEs in India is a significant
2. To study the MSMEs share of GDP in India is not a significant

### CONCLUSION

In the light of their significance in growth and development, it seems of utmost importance to reduce the regulatory barriers faced by MSMEs and provide them adequate and timely support. There are some problems common amongst all the MSMEs. They can be classified as external and internal problems. External problems are caused due to macro environmental factors economic and political- that are beyond the control of the enterprises for example access to finance, corruption, competition, lack of skilled labour etc. Internal problems are caused due to factors that are within the enterprises (Grimsholm & Poblete, 2010) for example lack of managerial competence and sophisticated technology, ineffective marketing and distribution techniques etc. There are many policies launched by the government to help MSMEs in different ways, the key areas being enterprise and skill development, technological up gradation, access to finance, cluster development, marketing assistance etc. (Ministry of MSMEs). Still, these problems

continue to persist and more in some areas than others. It therefore is important to first realise the importance of MSMEs, recognise the factors hindering their growth and then not only introduce appropriate policies but also spread awareness about their existence and accessibility. It is also prominent from the recommendations of EXIM Bank and PM'S Task Force; and schemes of MSME Ministry that there is more focus on Micro and Small Enterprises than the Medium Enterprises. Reserve Bank of India advises banks to lend 60% of the MSE Advances to Micro Enterprises and ensure 10% growth in credit to micro enterprises. The inclination towards micro enterprises is also fair to an extent because they are the ones with least knowledge and resources. But Small and Medium enterprises play a very important in development of the economy as is shown by the theory of The Missing Middle and the positive correlation between the economic growth of a country and the size of its SME sector. Therefore there needs to be more focus on Small and Medium enterprises in government policies and schemes.

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