

An Empirical study of MSME in the Growth of Indian Economy: GDP and GVAPerspective

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ABSTRACT

Purpose: For the growth of Indian Economy Micro, Small and medium enterprises of India is an important driving factor. For the development of Indian economy the MSMEs contribute considerably in through export supply, domestically produced product, low requirements of investment, operational management flexibility, technological oriented enterprises etc. The main role of MSME and its organizations is to facilitate the States in their efforts to stimulate entrepreneurship, employment and sustenance opportunities and enhance the competitiveness of MSMEs in this changing scenario of economy. Main purpose of the paper is to analyze the performance and role of MSMEs in Indian economy using empirical verification.

Methodology: In this research paper, the data was collected from secondary sources and were be analyzed by SPSS tools and techniques like linear regression method. The analysis would be interpreted accordingly to influencing factors.

Outcomes: The participation of Manufacturing Sector including Service Sector in MSMEs is considerable for the total GDP of the Country. Government of India has been taken number of actions & it is in the process of preparing the growth of this Micro, Small & Medium Enterprises in the country.

Keywords: MSME, Economy, Challenges, Role and Performance, GDP.

I. Introduction

MSME sector is considered as the backbone of the Indian economy that has contributed substantially to the socio-economic development of the nation. MSMEs helps in lowering the unstable income distribution among the people through the approach of providing employment opportunities & industrialization for backward areas. For the development of Indian economy, the MSMEs contribute considerably in through export supply, domestically produced product, low requirements of investment, operational management flexibility, technological oriented enterprises etc. (Vasant Desai, 2011)¹. Acting as a complementary unit to large sectors, the MSME sector has enormously contributed to its socio-economic development. The MSME (Micro, Small and Medium Enterprises) segment is one of the significant contributors in Indian GDP.

The position in one of the fastest growing world economics the micro, small and medium

enterprise have borrowed a major hand in catapulting India. MSMEs contribute 8% of country's GDP, around 45% of the country's manufacturing output, and almost 40% of its export comes from this sector (Dixit et. al., 2011)². By its less capital intensive and high labour absorption nature, this sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. (S. Subina, 2015)³. It encourage stable development of regional as well as a more equitable distribution of wealth.

II. MSME in Indian Perspective

The Government of India has introduced **MSME or Micro, Small, and Medium Enterprises** in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities.

In India, the MSME enterprises have been classified broadly into two categories:

- (i) Manufacturing; and
- (ii) Those engaged in providing/rendering of services.

Atma Nirbhar Bharat Abhiyan' or the Self-Reliant India Scheme of 2020 by the Government of India has given a new definition for MSMEs, which is applicable with effect from July 2020.

Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

Following are a few highlighting features of new MSMEs –

A provision of Collateral Free Loans to MSMEs.

1. An arrangement of loans to MSMEs worth of Rs. 3 lac crores.
2. An offer for MSMEs to get a Moratorium period of 12 months.

3. Consideration of Manufacturing and Service MSMEs as the same entities.
4. MSM is a granted a repayment Tenure of 48 months.
5. MSMEs are assured a 100% Credit Guarantee.

According to the proposed reclassification or the new classification the operations of MSMEs would be transparent, non-discriminatory, and objective in nature. Reclassification of MSMEs will benefit approximately 45 Lac units.

As per the official data as of 31st Aug 2021, there are presently approximately 6.3 crore MSMEs in India. Till now MSMEs have created 11 crore jobs. They employ around 120 million persons, becoming the second largest employment generating sector after agriculture. The MSME sector accounts for 8% of India's GDP and 45% of merchandise exports. Due to this, the MSME sector is called the growth engine of the nation.

MSMEs produce and manufacture a range of products for both domestic as well as for international markets. Those have been over 6000 products ranges from traditional to high-technical items, at present manufactured by Indian MSMEs (Srivastava, Sarika, 2020)⁴. They are extended across country and incorporate such acts like Khadi, handlooms, bidi-making, sericulture, coir, knitting, embroidery, wood carving and other handicrafts. Small and medium enterprises usage power-driven machines and possess several elegance technologies (N.K. and Sardar,2011)⁵.

The MSME sector in India claims of diversity in terms of its size, level of technology employed, range of products and services provided and target markets. MSME Tool Rooms have been credited to provide at least ten components that were used in India's Mangalyaan (Mars Orbiter Mission probe), the Indian Space Research Organization's (ISRO) most ambitious mission till date, which is the country's first inter-planetary space mission. The sector has also contributed vital inputs for other space satellites such as the Chandrayan.

MSME sector is viewed as a critical pillar in accomplishing sustainable development goals. In accordance with the idea, "Small Business, Big Impact," Micro Small Medium Enterprises indirectly or directly contribute to achieving the Sustainable Development Goals.

MSME sector helps in achieving the goal of continual development by lowering the proportion of women, men and children of any age living in poverty through employment creation and economic development. MSMEs promote all-inclusive growth by providing employment opportunities, especially to people belonging to weaker sections of the society in rural areas.

MSMEs assume a key role in reducing gender equality by ensuring women's effective and maximum participation in trade and business. Nearly 40% of small-scale businesses are owned and managed by women. They are more adaptable than large organisations, MSMEs are likely to accept sustainable trade practices.

MSMEs give great opportunities in term of both self-employment and paid employment.

Micro undertakings are generally artificer –based and work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services. MSMEs help in achieving greater levels of economic output as key drivers of growth, expansion, technological advancement and innovation.

III. Literature Review

Ravi S. (2009)⁶ has observed that policy recommendation of MSME development act of 2006 has not been able to resolve some of the ongoing debates in this sector. Specific policies that are aimed at the MSME sector have limited impact on the growth of this sector, whereas more general development policies such as expenditure on infrastructure and access to finance have significantly positive impact on growth of the MSME sector across states in India over the last 15 years. It has been suggested that perhaps the government should play a facilitator role and improve access to finance by encouraging more banks and other financial institutions to enter the local market, instead of becoming an active player itself.

Jahanshahi, A.A, Nawaser, K. Khaksar, S.M.S and Kamalian, R.A (2011)⁷ analyze the relationship between Government policy and the growth of entrepreneurship in the micro, small & medium enterprises of India. In particular, it also considers the contribution of MSMEs towards country's employment generation. The global market has changed considerably as also the activities of Micro, Small and medium enterprises. Today, for businesses to survive, dynamism and entrepreneurship must exist in its fullest degree.

Grant Thornton and FICCI, (2013)⁸ has stressed that in the face of emerging challenges and the need to strengthen global outreach it has become imperative for the MSME sector to demonstrate greater competitiveness and position themselves strategically along the value chain. Report highlights specific models and approaches that MSMEs could explore to plug into new market opportunities. The report also provides an insight into innovative marketing tools, along with ways in which traditional strategies could be sharpened as companies strive to become globally competitive.

Spithoven A. et al. (2013)⁹ focused upon open innovation (OI) practices in small and medium-sized enterprises. The lack of resources in SMEs to engage in looking outward is said to be a barrier to OI, but at the same time this shortage is cited as a motive for looking beyond organizational boundaries for technological knowledge. The study has investigated upon how OI dimensions impact the innovative performance of SMEs in comparison to large companies. The key finding is that the effects of OI practices in SMEs often differ from those in large firms. SMEs are more effective in using different OI practices simultaneously when they introduce new products on the market, whereas this is less the case for large firms.

Chandraiah M. and Vani. R, (2013)¹⁰ focused on economic policy introduced by government of India in 1991 that gave thrust towards Globalization process. Globalization in India was adopted to integrate the economy of the country with world economy. The policy shift at the behest of IMF and World Bank has led to Unequal competition between Multinational

companies and small Indian enterprises. As Small sector is a vital constituent of overall industrial sector of any country particularly India there is need promote this sector.

R. Ravi and Avinas. R,(2014)¹¹ analyze the relationship between Government policy and the growth of entrepreneurship in the micro, small & medium enterprises of India. In particular, it also considers the contribution of MSMEs towards country's employment generation. The global market has changed considerably as also the activities of Micro, Small and medium enterprises. They emphasize for businesses to survive, dynamism and entrepreneurship must exist in its fullest degree.

Gupta, S.L. and Rajan, R. (2014)¹² did an empirical study to highlight that the growth in number of MSMEs after liberalization has contributed to proportionate growth of MSMEs contribution in various parameters viz Production, Employment and Exports. The policy of liberalization which was aimed to deregulate the market and keep investments flowing did manage to increase the number of units, but their overall productivity leaves a lot to be desired. Increase in number of Units and Employment have shown proportionate growth over the period, whereas export and production has been fluctuating significantly. Per unit increase in rate of production has not been able to match with overall increase in production rate which indicates that new units added during the year supposedly ought to be incorporated with new innovative and better technology are actually taking time to match the overall production rate of older units.

Kumar, V. (2017)¹³ made an attempt to understand the role of MSMEs in providing employment opportunities & push towards the inclusive development of the country. The various problems faced by these MSMEs in executing their operations have also been discussed in this paper.

Mukherjee, S. (2018) conducted a case study of Indian coir industry, a traditional export oriented industry, and found that with the onset of the globalization process, the Indian Micro Small and Medium Enterprises (MSMEs) are lagging behind the rival firms. The rival firms originate from the neighboring countries in terms of export competitiveness. The main reason attributed behind this is lack of use of updated technology and other notable factors. More efforts in the form of higher investment in advanced technology and research and development, higher usage of digital and technology is the need of the hour.

IV. Rationale of The Study

From literature review it can be found that many research has been conducted on the financial, technological problems faced by the MSMEs and the impact of government policies on the growth of MSMEs. But no relevant study has been focused on the role of MSMEs on the economic development of the country. This research work has been done to fill this gap.

V. Objectives of the Study

- To study the current status and growth of MSMEs in India.
- To study the impact of MSMEs sector on Indian economy through its contribution to Gross Domestic Product and Gross Value Added.

VI. Research Methodology

The data collected for the study is primarily from secondary sources. This includes articles and journals written by eminent researchers. The annual reports published by Ministry of Micro, small and Medium Enterprises and the data published by Central Statistics Office (CSO), Ministry of Statistics and Programmed Implementation were taken into consideration. The present study was conducted to measure the performance of the Indian MSME for the period from 2014-15 to 2018-19. It is based upon four essential performance variants as total working MSMEs GVA, Growth (%), Share of MSME in All India GDP (in %), Share of MSME sector in total GDP.

VII. Performance Evaluation in Indian MSME

Micro, Small and Medium Enterprises (MSMEs) sector have been become apparent like a extremely active as well as vigorous sector in economy of India through past half-century (**Bargal, H, 2009**)¹⁵. MSME not just perform essential part inside offering huge opportunities for employment on relatively lower capital cost then large industry in addition to it assist for rural industrialization & backward areas, therefore, minimizing regional unbalance, guaranteeing furthermore impartial disseminating national income as well as wealth. MSME is complementary to larger industries as secondary unit also that sector helps tremendously to the country socioeconomic development (**Singh, R, 2012**)¹⁶.

Gross Value Added (GVA) of MSME in all India GDP		
Year	Share of MSME in GVA(%)	Share of MSME in GDP(%)
2014-15	31.80	29.34
2015-16	32.28	29.48
2016-17	32.24	29.25
2017-18	32.79	29.75
2018-19	33.50	30.27

Table 1: Gross Value Added (GVA) of MSME in all India GDP

Source: Central Statistics Office (CSO), Ministry of Statistics and Programmed Implementation

On the basis of the testing phase, a reliability test was conducted to ascertain the research parameters and to test the validity and reliability of the table 1 in the study and received a

reliability test on Cronbach Alpha as 0.922 which proves the reliability of the data set.

Table 2: Reliability Statistics

Reliability Statistics	
Cronbach's Alpha	N of Items
.922	2

VIII. Correlations

The Correlation is statistical procedure can directly explain whether and how strongly pairs of variables are related. In this step the recognized GVA and GDP meant to be correlated with the MSME.



Fig 1: Correlation Establishment

In the below table 3, correlating the GVA % and GDP % faced by MSME, it shows that the highest participate in the year group of 2018-19 is the Pearson correlation with a high percentage of 0.948. It was clear from that table 3 the number of MSME enterprises have been increased and growth rate too showing upward trend except the year 2018-19. The number of units started increasing from 1% Chronicles units to 2% Chronicles units that is show in nearly increasing trend throughout this Study of amount. when the implementation of MSMED Act, 2006 the amount of MSME units started increasing. that the most vital step is Correlation establishment.

Table 3: Correlation

Correlation			
		a	b
Share of MSME in GVA(%)	Pearson Correlation	1	0.948
	Sig.(2-tailed)		0.014
	Sum of Squares and Cross-products	1.688	1.011
	Covariance	0.422	0.253
	N	5	5
Share of MSME in All India GDP(%)	Pearson Correlation	0.948	1
	Sig.(2-tailed)	0.014	
	Sum of Squares and Cross-products	1.011	0.674
	Covariance	0.253	0.169

	N	5	5
Correlation is significant at the 0.05 level(2 tailed)			

Source: Central Statistics Office (CSO), Ministry of Statistics and Programmed Implementation

A paired-samples statistic in table 5, It is used when for two sample of GVA % and GDP % who are tested several times, but under different conditions, that is, under different levels of an independent variable at various behaviour. Each subject of MSME is measured on the same GVA and GDP variable, but under different levels of an independent variable and compare performance of the MSME between the different levels of this independent variable (with-subjects design). That is necessary to verify the validity of proposed study for acceptance. 2-sample t test applies for check the impact within GVA and GDP variable (table5). When compare means t-test is handy hypothesis tests in statistics.

Table 4: Paired Samples Statistics

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Share of MSME in GVA (%)	32.5220	5	.64955	.29049
	Share of MSME in All India GDP (in %)	29.6180	5	.41057	.18361

Table 5: Paired Samples Test

Paired Samples Test								
	Mean	Std. Deviation	Std. Error Mean	Paired Differences		t	df	Sig. (2-tailed)
				95% Confidence Interval of the Difference				
				Lower	Upper			

Pair	Share of MSME in GVA (%) - Share of MSME in All India GDP (in %)	2.9040	.2916	.1304	2.5419	3.2660	22.26	4	.000
1		0	0	1	3	7	9		

Null hypothesis (H0): no significant impacts of GVA as well as GDP variable on MSME.

H0: $\mu_1 - \mu_2 = 0$

Alternate hypothesis (HA): significant impact of GVA and GDP variable on MSME.

HA: $\mu_1 - \mu_2 \neq 0$

In this above hypothesis μ_1 and μ_2 are treated as sample means of population.

Mean value and Standard Deviation value has been calculated for specified 2 samples and represented in table 5. The hypothesis was tested with zero level of significance and 95% confidence level. The value is sig 0.00. thus, null hypothesis directly discards as well as the alternate hypothesis is accepted. The proposed study is accepted.

IX. Conclusion and Discussion

This study shows the importance of MSME in general and as a key factor to GDP and GVA for producing high economy. MSME is clearly highly appropriate and significant in the perspective of economy growth. Correlation is developed with the help of previous study and properties. Statistical analysis shows that proposed study is statistically very much significance and acceptable. MSME have been validated contextually and empirically using experimental tryout. The practical authentication on the “GDP and GVA” concludes that proposed performance study is highly acceptable and growth of economy.

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