

Study the Contribution of Small Enterprises Towards Economy

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Abstract

The development of the IT and ITes industries has been a major factor in the spectacular change in industrial growth that has occurred in the post-liberalization era. The liberalisation era, however, revealed that micro and small industries were in danger of closing owing to MNC inversion in India. Given that India has a large, primarily unskilled labour pool, the government of India must perfect the micro and small industries there. By passing the MSME Act of 2006, the government has made the appropriate move in establishing legislation for MSME's. The report makes an effort to give a general overview of India's micro- and small enterprises and to research the effects of small businesses from 1991 to 2013.

Keywords: IT sector, MNC, MSME, socio economic effect.

Objective

Studying the socioeconomic effects of small businesses in economy is the main goal of this study.

Motivation for this research

Research is truly motivated by the success of small-scale industries after deregulation and their ongoing survival. How can small businesses flourish in the post-performance era is one of the research questions. Is the growth and annual performance enough to survive? What laws have been passed by the government during the liberalisation era? How long can tiny firms endure the competition?

Research Methodology

This study is an attempt to analyse the contribution of small-scale industries to economy. The study is primarily based on the secondary data which is collected from the MSME annual report.

Literature review

Rathod, C. B. (2007) described the importance of small-scale industrial sector and also the contribution of Indian small scale entrepreneurs in world economy. The main objective of the study was to study the growth and pattern of the SSI sector and identify the reasons for success/ failures, to evaluate the impact of globalization on SSIs and export opportunity, to identify the barriers and constraints that SSIs were facing to cope with globalization. The study analysed that SSI sector in India has been exhibiting a striking export performance; export had grown up to double digit from the last ten years. The study concluded that both opportunities and challenges were raised as the impact of globalization on Indian Industry as a whole and the small scale sector in particular. The study found that a major portion of our exports would have to gear up to the new era of boundary less economy. The study has suggested that there was need for simplified legal and regulatory framework, good governance, sufficient and accessible finance, suitable infrastructure and competitive environment.

By posing many concerns regarding Micro and Small Enterprises, Sudan, F. K. (2005) described the difficulties in the development of Micro and Small Scale Enterprises and policy issues. According to the study's findings, the government of India made every attempt to create a vibrant MSE sector and a diverse economy that would offer more job possibilities to accommodate the influx of new workers and provide interesting career options.

Business success is influenced by both internal and external factors, according to Rogoff et al. (2004). Internal factors like size and years in business, the capacity to attract financing, marketing, and human resources, as well as external factors like sales tax rates, infrastructure, market conditions, business opportunities, and the availability of resources, economic conditions, competition, and governmental regulation. Numerous studies have noted the significance of government support for small business growth.

SSI and MSME

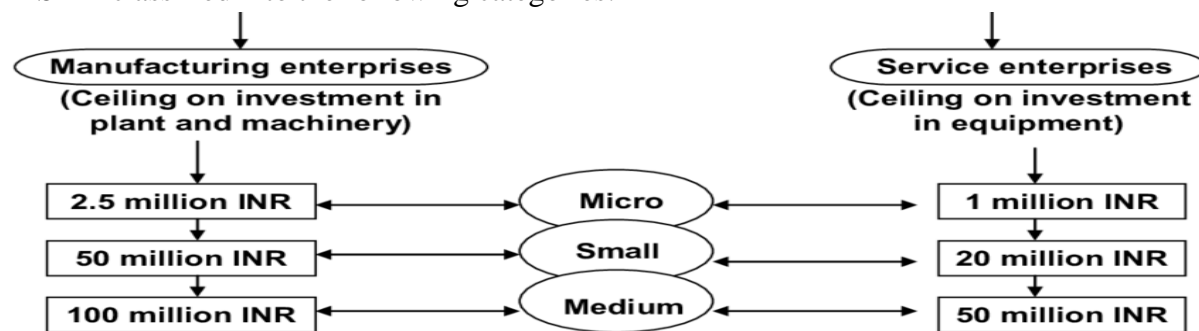
Since the 1950s, the concept of a small scale sector has evolved in India.

Accordingly, the Micro, Small, and Medium-Sized Enterprise Development Act of 2006 established the first-ever legal framework for recognising the concept of an enterprise and combining its three levels.

Small-scale industries (SSIs) are typically defined as businesses that use little labour and modest equipment to create goods and services. Small-Scale Industries are restricted from investing more than Rs. 1 crore on machinery, plants and industries. Both of these businesses operate in accordance with Indian government policy. These business models must adhere to the regulations established by the Indian government.

Micro, Small, and Medium Enterprises are known as MSME. The Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006, also known as the Start MSME or Micro, Small, and Medium Enterprises Act, was passed by the Indian government. These businesses mostly work in the manufacture, preservation, or processing of goods and commodities.

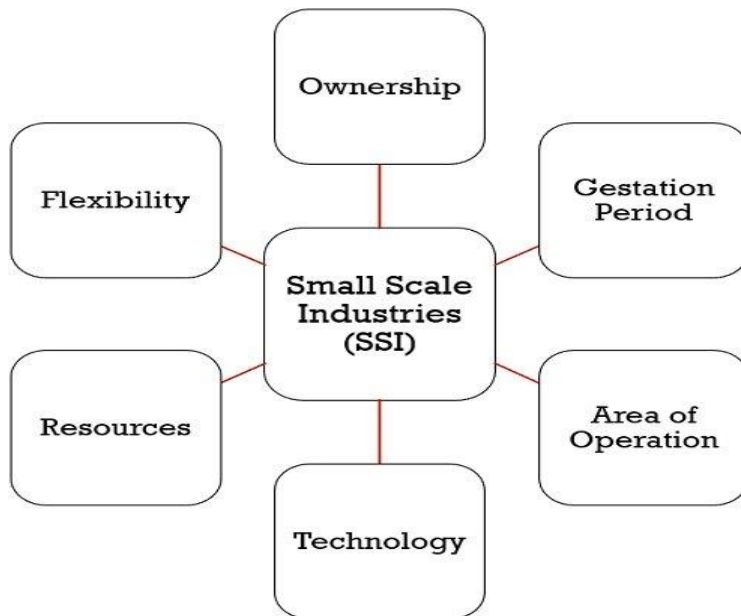
MSME classified into the following categories:¹



Size of enterprise	Investment and Annual Turnover
Micro	Investment less than Rs. 1 crore Turnover less than Rs. 5 crore
Small	Investment less than Rs. 10 crore Turnover less than Rs. 50 crore
Medium	Investment less than 20 crore Turnover less than Rs. 100 crore

¹ Available at https://www.researchgate.net/figure/Enterprise-classification-as-per-MSME-Development-Act-2006-ENTERPRISES_fig1_264824215 last visited on 27 feb 2023

Role of SSI



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1. **Employment creation:** India's small-scale companies are among the finest places to find work. One of the key elements influencing a country's development is employment. Therefore, it is important to promote the growth of small-scale industries in order to increase the number of employment possibilities in the country.
2. **Less Capital Needed:** Compared to large-scale industries, small-scale companies require less capital. Because capital is scarce in emerging nations like India, small-scale companies are best suited to keep the system in balance.
3. **Utilization of resources and growth of entrepreneurial skills:** Small-scale industries enable the rural population, which lacks access to large-scale businesses, to develop entrepreneurial skills. These industries aid in the efficient use of the rural areas' resources, which promotes rural area development.
4. **Equal income distribution:** By creating work possibilities, small-scale companies help adolescents in disadvantaged areas have equal access to economic options. The nation's growth in terms of jobs and human development results from this.
5. **Maintain regional balance:** Large-scale industries are frequently concentrated in or restricted to large cities, which causes migration of people in pursuit of jobs to these cities. Such a migration causes the city to become overcrowded and harms the environment. It is necessary to use more natural resources in order to support a huge population.
6. **Short production times:** Small-scale enterprises produce goods more quickly than large-scale ones, which helps the economy by increasing the flow of money.
7. **Supporting the large scale industries:** By creating auxiliary goods for the large industries or minor components that will be helpful for the assembly of final products by the large scale industries, small scale industries contribute to the growth of the large scale industries.

² Available at <https://businessjargons.com/small-scale-industries.html> last visited on 27 February 2023.

- 8. Improvement in export:** A large portion of India's export revenue comes from small-scale industries, which account for about 40% of the country's overall exports. Small-scale industries operate to boost the nation's foreign exchange reserves, which lightens the burden on the country's balance of payments.
- 9. Lessen reliance on agriculture:** The majority of the rural population will be dependent on agriculture, which puts a strain on the industry. Small businesses open up more options for growth and facilitate a more balanced distribution of occupations by offering employment to the rural population.

Problems faced by SSI

- Not getting enough funds
- Lack of technology
- Lack of marketing
- Unskilled labour
- Low quality products

Facts and findings

1. SSI and Economic development

Through business innovations, the MSMEs have made a substantial contribution to the growth of entrepreneurial endeavours. The MSMEs are expanding their sphere of influence across economic sectors and generating a wide range of goods and services to satisfy domestic and international markets. The MSMEs in India are playing a crucial role by, among other things, industrialising rural and backward areas, reducing regional imbalances, and ensuring a more equitable distribution of national income and wealth. They also provide significant employment opportunities at comparatively lower capital costs than large industries.

Estimated Number of activities of MSME³

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	114.14	82.50	196.65	31
Electricity*	0.03	0.01	0.03	0
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
All	324.88	309.00	633.88	100

2. SSI and Employment

According to the 73rd round of the National Sample Survey (NSS), which was conducted between 2015 and 2016, the MSME sector has been creating 11.10 crore jobs in both rural and urban areas of the nation (including 360.41 lakh jobs in manufacturing, 0.07 lakh jobs in non-captive electricity generation and transmission, 387.18 lakh jobs in trade, and 362.82 lakh jobs in other services). The distribution of MSMEs is shown by Statement No. 2.5, activity-wise.

³ Available at MSME annual Report 2021-22.

Estimated employment in MSME sector:⁴

Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
All	497.78	612.10	1109.89	100

SSI- India's economic Backbone

SSI sector is considered a pillar of India's economy due to its immense contribution in employment and income generation. The 63 million MSMEs in India currently contribute close to 30% of the country's GDP (GDP). The industry already contributed to almost 50% of its exports, and as of 2022, it had increased by 37% annually.

Government scheme for small-scale industries:⁵

The Credit support initiative	Initiatives for development of Khadi, village and coir industries
Prime Minister Employment Generation Programme	Market promotion and development scheme
Credit Guarantee Trust Fund for Micro and Small Enterprises	Revamped Scheme of Fund for Regeneration of Traditional Industries
Credit Linked Capital Subsidy for Technology Upgradation	Coir Vikas Yojana
	A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE)

Conclusion

During the study, the small scale industries have aided in the rise of production, exports, and employment. Given how significantly the services sector contributes to the GDP, industry growth rates have decreased. The study has shown that small and medium-sized businesses have boosted the nation's economy despite India's liberalisation policies. The small business stakeholders' per capita income is also significant. Small businesses in India have been safeguarded by the legislation classifying Micro, Small and Medium Enterprises and MSME Act 2006 and the establishment of a ministry for the same. Government of India promote MSME also provide training and provide tax relief for the same.

⁴ Available at MSME Annual report 2021-22.

⁵ Available at <https://www.indifi.com/blog/small-scale-industries-in-india-ssi/> on 28 feb 2023.

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