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Research Paper Economics

Role of Micro Enterprises in Balanced Economic Development of India: A Study

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ABSTRACT *Worldwide micro enterprises play a major role in faster and equitable development of nations, particularly developing nations like India. In the context of globalization pressures sweeping across the globe, resulting in growing apprehensions regarding widening disparities of all types, this paper looks into the vital role that micro enterprises play bringing about balanced and equitable economic development in India.*

KEYWORDS: Micro enterprises, Backward regions, Rural areas, Women empowerment, Balanced development

INTRODUCTION

In the ongoing era of globalization which is characterized by fast changes in development and strategies, small scale industrial units have got numerous opportunities and also several challenges and threats. This is more so in respect of micro enterprises, the lowest strata among the MSMEs, as they are more vulnerable to threats in the market like competition from products from abroad. It is widely recognized that small scale enterprises can play a catalytic role in the process of development of modern economies by accelerating the pace of development, and that too in an equitable, balanced and largely sustainable manner. Unfortunately, in the Indian context the indicators of economic development point to the fact that small scale sector has to catch up a lot. However, competition and such other developments induced by globalization have been inspiring small scale enterprises to go for continuously innovate their systems and process often by adopting the latest technologies.

In respect of India in particular, the peculiar capability of small enterprises in bringing about faster economic development was acknowledged relatively well even during the early years of the Plan era, despite the fact that The Industrial Policy Resolution 1956 favoured priority to heavy industry. SSEs are often referred to within the broader framework of Small- and Medium-scale Enterprises (or, SMEs in short). SMEs play a vital and strategic role in socio-economic growth of any nation, and balanced and equitable distribution of the national resources. It is estimated that SMEs 'constitute as high as 90 percent of enterprises in most countries worldwide, they are the driving force behind a number of innovations and contribute to the growth of the national economy through employment creation, investments and exports' (Government of India Report, 2007). The contribution of SMEs toward poverty reduction and wider distribution of wealth in the developing economies need not be over-emphasized. Since the enactment of Micro, Small and Medium Enterprises Development Act 2006 (MSMED Act 2006) SSEs, SMEs etc. are often referred to under the common term Micro, Small and Medium Enterprises (or, MSMEs in short). The MSMED Act 2006 came into effect on October 2, 2006. MSMED Act 2006 classifies MSMEs into three types (Table I). Of the three types of MSMEs, the lowest strata viz. micro enterprises require the lowest level of investment. They are the most affordable for new entrepreneurs, women, rural poor etc. They have huge potential for equitable and balanced development for a nation like India. This paper focuses on micro enterprises.

Objectives and Methodology

This paper seeks to look into the strategic role that micro enterprises perform in ensuring balanced and equitable development in India. The sources of data are primarily secondary, comprising of publications and reports of Government India, Government of Kerala, Reserve Bank of India, etc.

MICRO ENTERPRISES AND DEVELOPMENT

SSEs in India have been playing a vital role in bringing about an inclusive, balanced and sustainable economic growth by way of employment generation, development of entrepreneurial skills, and income generation and its equitable distribution. Besides, SSEs have been contributing significantly to India's export earnings too. The small scale industrial (SSI) registered a high growth rate since independence in spite of stiff competition from the large scale sector and a not-so-encouraging support from the government. Thus, the number of registered SSI units went up from 16,000 units in 1950 to 36,000 units in 1961 and to 33.7 lakh units in 2001. This sector has been contributing significantly towards meeting the social objectives like providing employment to the millions of people across the country, ensuring income equality and balanced regional development, and creation of a strong entrepreneurial base. The output of this sector was Rs.1,22,154 Crore in 1995 and this went up to Rs.4,18,263 Crore in 2005 (at current prices). Production in SSI sector during the last 10 years has recorded an annual average growth rate of 8.6 percent. The share of SSIs in the country's industrial output was nearly 39 percent as of 2005. This sector plays a crucial role in India's industrial and economic development.

SSI sector is highly labour-oriented and labour-intensive with relatively high labour-investment ratio. A given amount of capital invested in this sector of industries is likely to provide more employment, at least in short run, than the same amount invested in a large industry. It is estimated that an investment of Rs.1.00 lakh, in fixed assets, in a large industry may create, on an average, employment to 2-4 persons whereas the same amount of investment made in a small-scale industry, for the same purpose, might do so for 10-12 persons (Government of Meghalaya, 1993). As per the MSME Act 2006, the size and scale of India's small scale sector ranges from 7.8 million to 13 million in number and the share in GDP of these enterprises is estimated to be over 80 percent. Besides, it is estimated that more than 90 percent of the total number of enterprises are coming under the category of micro enterprises (Government of India Report, 2007). This sector is quite dynamic in functioning, and acts as a nursery for promoting entrepreneurial talent and as a catalyst for industrial growth. This sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 595 lakh persons in over 261 lakh enterprises throughout the country. This sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. MSMEs provide good opportunities for both self-employment and wage employment. There are a wide range of products, of more than 6000 in number, that are produced by the MSMEs. These range from food products, wearing apparels, fabricated metal products, textiles, furniture etc. (Table II & Figure I). The time series data in respect of the performance of this sector on various economic parameters are shown in Table III.

It is widely recognised that backward area development is an essential pre-requisite for overall development of a nation. Another rationale for equitable regional development is that it would ensure securing of maximum efficiency in the utilization and exploitation of available resources. Regional development contributes and helps in the involvement and empowerment of common people. It leads to an equitable distribution of employment opportunities and helps in reducing per capita income among different regions. It also helps to check rural-urban migration and the concentration of population and industry in a few big industrial centres of developed region and also reduces the growth of agglomeration. Small-scale industries can have profound

influence by raising income level of the rural people, creating employment in the economy by diversification of production through ancillarisation, diffusion of ownership through the promotion of local entrepreneurship and geographical dispersal of industrial activities by setting up industries based on local resources. This sector has the highest potential for women empowerment because of the small investment required and the wide variety involved. Besides, there is an added advantage that they cater to the needs of the low income populace by providing either self-employment or waged employment. Large enterprises cannot ensure the above kind of socio-economic equity. Even the products that MSMEs produce, by and large, cater to the low income and medium income segments of the population.

Concluding Remarks

In spite of the large number of problems faced by the micro enterprises, there do exist ample scope for regional economic development particularly rural development through the implementation of appropriate policy initiatives by the concerted action of the government and other stake holders like industry associations, formal sector financial institutions, training institutions etc. Apart from ensuring faster economic development of the nations, micro enterprises ensure that such economic development is balanced, equitable and hence sustainable in the long run.

Table I: Classification of MSMEs (MSMED Act, 2006).

Type of enterprise	Engaged in manufacture or production of goods	Engaged in providing or rendering of services
	Investment in plant and machinery	Investment in equipment
Micro enterprise	Does not exceed 25 lakh rupees	Does not exceed 10 lakh rupees
Small enterprise	More than 25 lakh rupees, but does not exceed 5crore rupees	More than 10 lakh rupees, but does not exceed 2 Crore rupees
Medium enterprise	More than 5 Crore Rs, but does not exceed 10 Crore rupees	More than 2 Crore rupees but does not exceed 5 Crore rupees

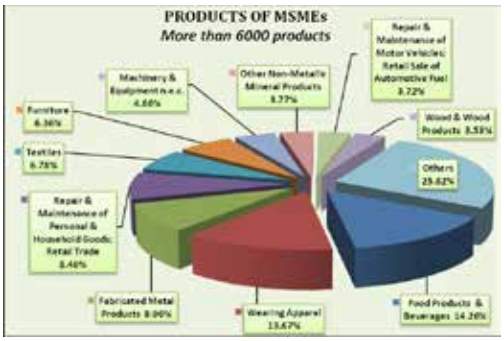
Source: *The Gazette of India, No. 27 of 2006*, MSMED Act 2006, Govt. of India, p.5.

Table II : Range of Products of MSMEs in India

Sl. No.	Type of the Product Manufactured by the MSMEs	Share (Percent)
01	Food Products & Beverages	14.26
02	Wearing Apparels	13.67
03	Fabricated Metal Products	08.96
04	Repair & Maintenance of Personal & Household goods: Retail Trade	08.46
05	Textile	06.78
06	Furniture	06.36
07	Machinery & Equipment n.e.c	04.66
08	Other Non-metallic mineral products	03.77
09	Repair & Maintenance of Motor Vehicles: Retail Sale of automotive fuel	03.72
10	Wood & Wood Products	03.53
11	Others	25.82

Source: Compiled from, *Final Report of the Fourth All India Census of MSMEs 2006-07: Registered Sector.*

Figure I: Range of Products of MSMEs in India



Source: Compiled from, *Final Report of the Fourth All India Census of MSMEs 2006-07: Registered Sector.*

Table III: Growth Performance of MSMEs in India (FY 2002 to FY 2011)

Year	Total Working MSMEs (Lakhs) (Nos)	Employment (Lakhs persons)	Fixed Investment	Production	Exports
			(Rs in Crores)		
FY 2002	105.21 (04.07)	249.33 (04.44)	154349 (05.11)	282270 (08.03)	71244 (02.07)
FY 2003	109.49 (04.07)	260.21 (04.36)	162317 (05.16)	314850 (11.54)	86013 (20.73)
FY 2004	113.95 (04.07)	271.42 (04.31)	170219 (04.87)	364547 (15.78)	97644 (13.52)
FY 2005	118.59 (04.07)	282.57 (02.11)	178699 (04.98)	429796 (17.90)	124417 (27.42)
FY 2006	123.42 (04.07)	294.91 (04.37)	188113 (05.27)	497842 (15.83)	150242 (20.76)
FY 2007	261.12 (111.57)	595.66 (101.98)	50078 (166.20)	709398 (42.49)	182538 (21.50)
FY 2008	272.79 (04.47)	626.34 (05.15)	558190 (11.47)	790759 (11.47)	202017 (10.67)
FY 2009	285.16 (04.53)	659.35 (05.27)	621753 (11.39)	880805 (11.39)	NA
FY 2010*	298.08 (04.53)	695.38 (05.46)	693835 (11.59)	982919 (11.59)	NA
FY 2011#	311.52 (04.51)	732.17 (05.29)	773487 (11.48)	1095758 (11.48)	NA

(Source: Annual Report 2011-'12, Ministry of Micro, Small & Medium Enterprises, pp. 22-23).

[Notes: * - Provisional; # - Projected]. (NA – Not Available).

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