

**Status And Growth Of Micro, Small & Medium Enterprises (Msmes) Post Msmmed 2006  
Act Implimentation In India**

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**Abstract**

The MSME's which is commonly called as Micro, small and medium enterprises has been frequently specified as 'growth engine of economy' which is often true for many developing countries and no exception to Indian economy. MSME's has a big role in fostering the comprehensive economic ramp-up of a country. Since very long time MSMEs of India have been playing its part in contributing to the growth of country's economy in a commendable manner. MSMEs have been reclaimed for yielding large-scale employment with little investments after agriculture. The current study is an attempt to highlight the contribution of MSME and growth achieved post implementation of MSMED Act 2006, a policy aimed at boosting the micro, small and medium industries in India. The study establishes that there exist significant growth in MSMEs for quite some time and the change stands remarkable. Thus the study highlights the need for encouraging MSME' by securing them with a careful approach and equitable implementation of policies.

**Key words:** MSME's; Industrial Development; Indian economy; MSMED act 2006; Small Scale Industries; Economic Development; Growth Engines; Entrepreneurship; Creativity.

**I. INTRODUCTION**

Micro, Small & Medium Enterprises (MSMEs) has been contemplated as the much critical sector of any country's economy, especially in India. MSME's embrace inclusive and labour friendly growth and also playing a pivotal role in the overall Indian economic growth where millions of people who suffer from unemployment or underemployed. It requires less investment to roll out a product and after farming, MSME's turns out to be the second largest employer. This industry seizes the most prominent position in the Indian economy by endowing more than fifty per cent of industrial output in terms of value accretion. Role played by MSMEs sector in overall socio-economic development of India was very prominent in nature due to its inherent advantages such as small investment requirement, high jobs creation, decentralization of industrial operation, use of domestic resources, and proliferation of entrepreneurial base. Generally speaking, the rate of growth reported by this industry is been higher than that of the entire industry. Over the last five

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decades the small- scale enterprises emerged as a highly vibrant and competitive sector of Indian economy. MSMEs have been performing extremely well and have supported the country to achieve a broad yardstick of industrial development and diversification. This sector's job-creating ability shows its aptitude for a labor surplus economy such as India.

MSMEs nurtures entrepreneurship and creativity. In connection with this, the Government of India has created a ministry caters to micro, small and medium enterprises especially with an aim to foster the growth and development of MEMEs. The MSMEs in India produce over 6000 variety of products and offer services which find itself across the width and far of India to meet the demands of the native as well as the worldwide markets. The MSME sector has been termed as a “growth engine of India’s economic growth, becauseit contributes around 45% of the total exports from India (MSME Insider, Jan.2019) alone. At present India possess more than 63 million MSME units across the country, which makes up to 45% of all industrial production and 30.5% of the services sector and generated employment for nearly 110 million people. As a result MSME sector has become the catalyst in fostering and stimulating the socio-economic transformation of the country. According to International Monetary Fund, India’s current economy with an amount of \$2.6 trillion stands as the 6th largest economy in the world and is expected to touch \$5 trillion by the year 2025. In order to achieve the target, MSMEs have the huge responsibility to act as a growth engine for the country’s economicgrowth.

## II. Review ofLiterature

1. *Surendar Gade (2018)* tries to explore the support offered by MSMEs towards the evolvment and growth of India and emphasized the areas, which needs to be reinforced and continue its part in the development of the nation. In addition, MSMEs were found to provide equitable opportunities with regards to development for the society and act as a strong means of utilizing the available natural resources inIndia.
2. *Khurud B.S. (2015)* analyzed how the withdrawal of relief affected the MSME’s exports. Further it is revealed that after withdrawing the relief measures, MSMEs have recorded larger amounts at a greater pace than the total exports of India. The researcher also indicated that the MSMEs in India have been subject to certain constraints due to globalization. The unfair competition that the sector faces from bigger players at domestic level and multinational corporations is notable among them. Furthermore, the MSMEs lack breakthrough, innovative technology and operational experience, leading to higher operating costs.
3. *Ishu Garg and Suraj Walia (2012)* researcher analyzed the effectiveness of MSMEs in India. Researcher obtained data from secondary sources which involves several issues of annual MSME reports published by government of India. The analysis considered the period from 2001 to 2011 and the Compound Annual Growth Rate (CAGR) is determined by befitting the exponential function to the obtainable data using ordinary least square (OLS) technique. They concluded that the businesses no longer pursue a defensive strategy, modern strategies such as the cluster approach or maximizing the strength of collaborations with industry.
4. *Rabindra Ghimire (2011)* in the study researcher evaluated the national strategy and current status of MSMEs, government initiatives and analyzed the contribution of MSMEs to the country's economic growth. It was an exploratory method of research in which data procured from various secondary sources. From the investigation it was found that informal rural microcenter has the ability tosupply products and services using conventional technology to domestic producers. He asserted that the advancement of small and medium enterprises enable

## STATUS AND GROWTH OF MICRO, SMALL & MEDIUM ENTERPRISES (MSMEs) POST MSMED 2006 ACT IMPLEMENTATION IN INDIA

the distribution of economic actions, and it is easier to transfer and adaptation for the faster equitable income allocations.

**5. G. Shanmugasundaram (2011)** The views, expectations, attitudes of small-scale drug industries (SSDI) to the implications of new institutional reforms and industrial licensing policies were examined during the study period. This research method is based solely on the primary data gathered from a standardized questionnaire evaluating the actions of 200 small-scale drug industries from different districts of Tamil Nadu and Puducherry during 2005 and 2010. The study clarified that both industrial and non-industrial respondents have a favorable perception of structural changes and new industrial policy. The author inferred that the policies benefit small-scale drug manufacturing to maximize possibilities for investment in the rural areas.

**6. Mali (1998)** Stated that small and medium-sized enterprises (SMEs) and micro-enterprises are facing growing competition in the current globalization context, they have to strengthen themselves specifically in the areas of management, marketing, product diversification, structural growth, technology upgradation. In addition, new small and medium enterprises may need to shift from a sluggish area to a substantial growth area and form a strategic association with neighboring business owners. It also needs data bank on industries to guide prospective business people including overseas investors.

**7. Harold et al., (2011)** the paper analyzed the effectiveness of SMEs and their failure. The research was performed on the basis of the primary data source using a logistic regression algorithm, it was concluded that the model predicted the companies surveyed and explained the factors leading to success and failure by 25 per cent. The result also projected that the majority of factors contribute to the performance of their companies regards to Jobs, high quality personnel, training, the prevalence of good goods, facilities and excellent customer connections and the presence of great leadership qualities.

**8. Bargal et al., (2009)** the causal relationship between the variables like GDP, small scale industries production and small scale industries exports was examined and the performance standards of small scale industries were also compared during the pre- and post-liberalization period. The study found that the average annual growth rate of different small scale industries standards declined from the pre-reform years in the span of nineties.

**9. Venkatesh and Muthiah (2012)** It was found that small and medium enterprises (SMEs) play an increasingly instrumental role in the manufacturing sector and evolved as the driving force for potential growth. Researcher emphasizes that nurturing small and medium enterprises is crucial to the nation's economic well-being.

### III. The MSMED Act 2006

The MSMED Act 2006 was introduced with main objective of fostering and improving micro, small and medium enterprises competitiveness. It became effective from 2nd October 2006, and claimed as the most advantageous legislation of all previous acts which had been enforced earlier. The MSME Development Act enforced the establishment of a National Board of MSMEs with a specific duty to manage and regulate the growth of the country's MSMEs. The Board's role is to train entrepreneurs, manage the growth of clusters, build infrastructure and promote financial access to the sector. Another very important utility of the MSMED Act 2006 is to remove the cumbersome registration procedures that make it easier for all unregistered MSMEs to enroll in the mainstream. The MSMED Act specifically distinguishes production firms on the basis of investment ceilings from service companies. The Act was enforced with the intention to:

- Improve the competitive strength of MSME sector in the international market.

- Facilitating the overall development of the country's MSME sector and
- Focusing on all related issues in the MSME sector.

Enterprises have been defined on the basis of investment made in plant and machinery or equipment which excludes land & building which is mentioned in the below table 1 and table 2.

**Table1**

Definitions of MSME before MSMED Act 2006 Implementation

Investment made on plant, machinery or equipment

<b>Classification</b>	<b>Micro</b>	<b>small</b>	<b>Medium</b>
<b>Manufacturing</b>	Upto 2.5 Million	2.5 to 10 Millions	Not defined
<b>Services</b>	Upto 1 Million	Upto 1 Million	Not Defined

**Table2**

Definitions of MSME after MSMED Act 2006 Implementation

Investment ceiling for plant, machinery or equipment

<b>Classification</b>	<b>Micro</b>	<b>small</b>	<b>Medium</b>
<b>Manufacturing</b>	Upto 2.5 Million	2.5 to 50 Millions	50 to 100 Million
<b>Services</b>	Upto 1 Million	1 to 20 Million	20 to 50 Million

The "Micro, Small and Medium Enterprises Development (MSMED) Act, 2006" is the principle Act for MSMEs which, established statutory National Board for Micro, Small and Medium Enterprises for undertaking various functions like, filing of memorandum, measures for promotion, building and enhancing competitiveness of MSMEs, credit facilities, procurement preference and measures related to deferred payments to micro and small enterprises. It is for the first time that the medium sector has been defined in Republic of India and also micro enterprises have been defined for the first time in this Act.

By understanding the relative importance of MSME's and its contribution to the country's economic growth, researcher tries to answer the research question mentioned below statistically.

**Research Question:** Changes between the pre and post implementation of MSMED act 2006 in the growth factors of MSME (Units established, Employment generated and Investments made) in India?

**Research hypothesis:**

**H0:** There is no significant difference between growth factors of MSME (Units established, Employment generated and Investments made) with respect to the implementation of MSMED act 2006 on Indian MSME's.

**IV. DATA & METHODOLOGY**

The present study is based exclusively on secondary data collected from the various issues of annual reports published by the Ministry of MSMEs and Reserve Bank of India (RBI) respectively and Handbook of Statistics on the Indian Economy. The study takes into account from 2006 until 2018 as the researcher is keen to understand the implications of MSMED act 2006 on the growth potential of Indian MSME's. The available data have been analyzed and

**STATUS AND GROWTH OF MICRO, SMALL & MEDIUM ENTERPRISES (MSMEs) POST MSMED  
2006 ACT IMPLEMENTATION IN INDIA**

represented in suitable tables to evaluate the performance of MSMEs in India. Furthermore, Compound Annual Growth Rate (CAGR) determines the growth of MSMEs, and independent t-test was conducted to find out the difference between means of two independent samples. i.e pre implementation of MSMED act 2006 and Post implementation of MSMED act 2006.

***Status of filing Memorandum (Udyog Adhaar)***

As per the act, all the Micro small and medium enterprises have to file a memorandum of association at District industries centre (DIC). After the approval of project, entrepreneurs have to make a file regarding the Industrial Entrepreneurs Memorandum. Micro, Small and Medium enterprises that were registered during the last eight years (2007-08 ending 2017-18) has been tabulated and represented in the Table 3

**Table 3 Status of filing IEM**

<b>Year</b>	<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Total</b>
2007	1,56,051	17,777	491	1,74,319
2008	1,71,031	18,757	690	1,93,077
2009	1,86,126	23,999	1,412	2,13,894
2010	2,04,064	29,101	1,260	2,37,263
2011	2,42,606	34,192	2,939	2,82,496
2012	2,75,867	41,502	5,449	3,22,818
2013	2,96,526	59,127	7,338	3,62,991
2014	3,46,206	70,933	8,219	4,25,358
2015	3,64,577	72,683	8,776	4,55,264
2016	3,82,199	75,885	9,361	4,74,301
2017	3,91,171	77,302	9,705	5,11,311
<b>AVERAGE</b>	2,74,220	47,387	5,058	3,22,773
<b>CAGR</b>	7.95%	13.03%	28.23%	9.38%

Source: *Commissioner of Industries & MSME-Development Institutes, MSME Annual Report 2014-15*. The average growth of MSME's is 23% while the total growth is 9.38%. The maximum growth of medium scale is 28.23%. In year 2017-18, there were 391171 micro enterprises with an annual growth rate of 7.95%.

***Performance- Working Enterprises, Employment generated and Investments made***

The actual accomplishment of Micro, Small & Medium Enterprises (MSME) is based on the workers participation on their work. As per the latest census conducted by fourth all India census by MSME's, it has been observed that there is a rapid growth in both manufacturing and services sector. Measurement of performance of Micro, Small & Medium Enterprises (MSME) sector against employment and investments has been represented in the Table 4

**Table 4**

**Performance of MSME- Units, Employment and Investments**

Sl. No	Year	Total Enterprises (in Lakh)	Working Employment (in Lakh)	Market Value of Fixed Assets (Rs. In
1	2006-07	361.76	805.23	868543.79
2	2007-08	377.36	842	920459.84
3	2008-09	393.7	880.84	977114.72
4	2009-10	410.8	921.79	1038546.08
5	2010-11	428.73	965.15	1105934.09
6	2011-12	447.64	1011.69	1182757.64
7	2012-13	467.54	1061.4	1268763.67
8	2013-14	488.46	1114.29	1363700.54
9	2014-15	510.57	1,171.32	1,471,912.94
10	2015-16	512.99	1,112.28	1,499,703.77
11	2016-17	580.42	1,111.44	1,513,445.42
12	2017-18	633.88	1,109.89	1,603,767.88
<b>AVERAGE</b>		<b>467.82</b>	<b>1008.94</b>	<b>1234554.20</b>
<b>CAGR</b>		<b>4.78%</b>	<b>2.71%</b>	<b>5.24%</b>

Source: MSME Annual Report- 2017-18, Government of India.

The average growth of MSME's with regards to total employment generated was just about 4.78% which means that every year at an average of 467 units has been established. Whereas with regards to employment opportunities has been created post MSMED act 2006 it was near about 1008 in number amounting to mere 2.71% growth. Further investments made stands at an average of 1234554.20 crores which amounts to only 5.24%. From the study it was found that, the impact was very little that was registered in MSME sector.

#### **Paired sample t-Test-post MSMED Act 2006 implementation**

In order to perform the paired t-Test, researcher examined three variables i.e. Units established, Investments made and Employment generated individually against the years from 2006-2018 during which MSMED 2006 act was enforced.

a) **Ha0**: There is no significant difference between Units established with respect to the implementation of MSMED act 2006 on Indian MSME's. The following is the result represented in a below mentioned table5.

**Table 5**

#### **Paired sample t-Test for Year and Units established after MSMED 2006 Act**

	N	Mean	Std.Dev	SE Mean
<b>Year</b>	12	2063.9	281.0	99.3
<b>Units Established</b>	12	2361.3	186.6	66.0
<b>Difference</b>	12	-297.4	253.8	89.7

95% CI for mean difference: (-509.6, -85.2), T-Test of mean difference = 0 (vs ≠ 0)

T-Value = -3.31, **P-Value = 0.013**

From the above table 5 it is observed that after implementation of MSMED act 2006, the

**STATUS AND GROWTH OF MICRO, SMALL & MEDIUM ENTERPRISES (MSMEs) POST MSMED  
2006 ACT IMPLEMENTATION IN INDIA**

variable Units established observed a mean score of 2361.3 and obtained a standard deviation of 253.8. Further researcher after examining the above data by applying paired sample t-Test, obtained P-Value 0.013 which is less than 0.05 which signifies that the implementation of MSMED act 2006 has its influence on the number of units established in India. Hence Rejecting **Ha0**

b) **Hb0**: There is no significant difference between investments made with respect to the implementation of MSMED act 2006 on Indian MSME's. The following is the result represented in a below mentioned table6.

**Table 6**

**Paired sample t-Test for Year and Investments made after MSMED 2006 Act**

	N	Mean	Std.Dev	SE Mean
<b>Year</b>	12	2739	474	168
<b>Investments Made</b>	12	3971	477	169
<b>Difference</b>	12	-1231.3	159.7	56.5

95% CI for mean difference: (-1364.8, -1097.8) Test of mean difference = 0 (vs ≠ 0)

T-Value = -21.81 P-Value = **0.000**

From the above table 6 it is observed that after implementation of MSMED act 2006, the variable investments made has obtained a mean score of 3971 and standard deviation of 477. Thus researcher after examining the above data by applying paired sample t-Test resulted in P-Value 0.000 which is less than 0.05 which signifies that the implementation of MSMED act 2006 has its influence on the investments made in the country. Hence rejecting **Hb0**

c) **Hc0**: There is no significant difference between employments generated with respect to the implementation of MSMED act 2006 on Indian MSME's. The following is the result represented in a below mentioned table7.

**Table 7:**

**Paired sample t-Test for Year and Employment Generated after MSMED 2006 Act**

	N	Mean	Std.Dev	SE Mean
<b>Year</b>	12	6721	695	246
<b>Employment Generated</b>	12	9856	2673	945
<b>Difference</b>	12	-3135	2463	871

95% CI for mean difference: (-5194, -1076) T-Test of mean difference = 0 (vs ≠ 0) T-Value = -3.60, P-Value = **0.009**

From the above table 7 it is observed that after implementation of MSMED act 2006, the variable Employment Generated has a mean score of 9856 and obtained a standard deviation of 2673. Thus researcher after examining the above data by applying paired sample t-Test, P-Value 0.009 which is less than 0.05 which signifies that the implementation of MSMED act 2006 has an influence on the employment generated the country. Hence rejecting **Hc0**

**V. Result**

Hence by observing all the three variables, researcher concludes that all the three variables significance value has been lesser than 0.05, hence NULL Hypothesis is rejected and Alternate Hypothesis has been accepted. Hence researcher admits that there is a significant impact on units

established, employment and investments by the MSME's after implementation of MSMED act 2006 in India. Although the study reveals that there is a significant impact on the number of units, employment generated and investments made, the CAGR shows a very little growth. In this context, researcher believes that the policy implementation should be more robust and more reforms need to be brought in the policy from time to time to suit the dynamic needs of the markets.

## **VI. Conclusion and Discussion**

### ***Policies for the Indian MSME Sector:***

Policy making in the world of entrepreneurship is dynamic and unpredictable. Several aspects of government policy influence policies that govern business, trade related policies, policies that relate to employability, regional growth policies, social affairs and even gender policies. The combination of policy options would depend on a variety of factors, especially regarding the population's predominant attitudes toward entrepreneurship, the labor force composition, the size and role of government, the prevalence of the current level of entrepreneurial activity, and the current MSMEs. (Lundstrom et al.2005).

### ***Policy Reforms aimed at MSME Sector of India:***

The MSME development Act 2006 implemented a range of new regulations for instance, streamlined procedure for new MSMEs to register, unlike the earlier more time-consuming process, for filing a memorandum. District Industry Centers (DICs) will no longer have to endure the administrative responsibility of MSME registration with this new phase in place. District Industry Centers (DICs) no longer have to endure MSME registration's administrative burden. Another shift introduced in the act is the administrative fines that vendors place on late payments. As it was observed that large corporations often delay payments to MSME's due to which many enterprises faced the problems like losing credit worthiness, making deferred payments to the vendors and often became sick due to untimely availability of funds and also put their working capital wealth under pressure. The penalty levied for deferred payment for more than 45 days must be subject to a compound interest rate that is three folds the bank rate recorded by the Reserve Bank of India (RBI). Thus, the act guarantees a smoother distribution of working capital for cash-starved companies.

### ***MSMED 2006 Act thus -***

- Enables the growth and expansion of these firms, and increase their competitiveness.
- Offers consultative platform at national level with a clear representation of all stakeholder segments, in particular the three classes of industries and a broad range of consulting functions.
- Ensure credit growth to the MSMEs by 20 per cent year-on-year.
- The eligible credit limit will be increased to Rs.50 lakh under the Credit Guarantee Fund Scheme and many more key issues has been addressed by the MSMED act which was implemented in 2006 had created a conducive environment for the growth of MSME's there by confirming their role as growth engines for the country's economy.

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**STATUS AND GROWTH OF MICRO, SMALL & MEDIUM ENTERPRISES (MSMEs) POST MSMED  
2006 ACT IMPLEMENTATION IN INDIA**

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