

LINKING GROWTH OF MSMEs' TO EMPLOYMENT: AN EMPIRICAL STUDY OF ASSAM

Rajdeep Deb*

Abstract

The manifest capability of MSMEs across the globe as an enabler of economic growth at various levels cannot be misconstrued. They are often regarded as one of the determinants of the growth of Indian economy. The defining role of MSMEs in terms of spurring job creation, boosting exports, fostering entrepreneurship and innovation, guaranteeing uniform distribution of national income and wealth, and ultimately nation's economic growth and economic independence has projected it as a high potential area of research. In reference to Assam, there exist around 45509 MSME units which account for 2.69 lakh employment till the end of 2016-17. Keeping this into consideration, the current paper attempts to comprehend how the growth of MSMEs contributes to GDP and employment generation in India, thereby providing the much required push to the country's economic growth. Additionally, the paper also focuses on linkage between the growth of MSMEs in Assam and employment generation in the state. The results of the findings indicate a positive and significant relationship between the two variables in Assam. The current study finds implications in the sense that it has the potential to achieve full employment and thereby creating greater earning opportunities for the nation in general and state in particular.

Keywords: *Employment, Growth, MSMEs, Assam*

Introduction

The euphoria around the expectation of India becoming a 'Five Trillion Dollar' economy by 2025 and emerging as one of the world's fastest growing market economies is enthralling. This emphasizes the necessity to nourish and strengthen the pillars of our economy. Comprehending the relevance of Micro, Small and Medium Enterprise (MSMEs), the Government of India (GOI) introduced several schemes and programmes, especially designed for the Indian MSMEs, to make this sector globally competitive and reach sustainability.

*Assistant Professor, Department of Business Administration, Girijananda Chowdhury Institute of Management & Technology (G.I.M.T), Guwahati, Assam, India. rajdeep_au@yahoo.co.in

The MSME sector of India is witnessing an ascending trend, which affirms the dynamic future waiting for it. The government has even acknowledged the sector as a strategic player of Indian economy. Speaking at the Economic Times Global Business Summit in New Delhi, Shri Narendra Modi, the Honourable Prime Minister of India, said that the micro, small and medium enterprise (MSME) sector is the backbone of the Indian economy and his government is committed to promote this sector (SME Times, 24/02/2018). The Finance Minister echoing the words of Prime Minister asserted that MSME sector would lead the current consolidation phase of the economy (The Pioneer, 04/02/2018). According to Mr. Giriraj Singh, Union Minister, micro, small and medium enterprises across the country created four crore jobs in the last four years. The MSME minister further said that, a large number of employment opportunities were generated through initiatives like collateral free loans to 16 lakh entrepreneurs between 2014-18 (The Hindu Business Line, 27/06/2018).

The manifest capability of MSMEs across the globe as an enabler of economic growth at various levels (particularly national and local levels) cannot be misconstrued. With India gearing up to reclaim the peak of growth, the MSMEs can play a role of higher significance in accelerating the growth engine of the country. The defining role of MSMEs in terms of spurring job creation, boosting exports, fostering entrepreneurship and innovation, guaranteeing uniform distribution of national income and wealth, and ultimately nation's economic growth and economic independence has projected it as a high potential area of research. The building of a robust MSME sector is no less than a godsend for nations that are striving hard to deliver quality living to its citizens. In the eyes of several, economic independence is a social justice and the role of MSMEs in delivering this social justice is monumental. In a true sense, MSMEs are the undercurrent and actual heroes of the upward looking Indian economy. They are the ones who make efforts to conquer country's adversaries particularly unemployment, corruption, poverty, illiteracy etc. Therefore, MSMEs are regarded as engine of economic growth and vital agency for promoting balanced regional development in many developed and developing nations across the world.

Rationale of the Study

There exist different orientations toward the role of MSMEs in propelling the economic growth of a nation. One school of thought has taken pro-MSMEs stand while the second school of thought has taken anti-MSMEs perspective. The Pro-MSMEs superscribe the role of MSMEs in promoting employment and poverty reduction in developing economies (Beck et al., 2004). Additionally, they strongly argue in favour of MSMEs and highlight their role in enhancing competition, boosting employment more than the growth of large firms (Snodgrass & Biggs, 1996), and building entrepreneurship ecosystem (Garg et al., 2012). However, those who belong to anti-MSMEs group have more often questioned the reliability of MSMEs in stimulating employment growth and eliminating poverty. They are usually of the views that small ventures are neither more labour intensive as declared by the pro-MSMEs group nor have an edge in creating employment opportunities than big firms (Thormi & Yankson, 1985). This contrasting stands by academics exhibit the lack of consensus on this emerging phenomenon. However, this divergent perspective may be because of non-identical settings, different operating environment where studies were undertaken and the divergent methodological approaches used. So the question arises, do MSMEs' really play a distinct role in the creation of employment opportunities? In light of this, the current paper aims at exploring the validity of pro-MSMEs argument in the context of Assam.

MSMEs: The Definition

The increasing attention towards MSMEs as a highly vibrant, dynamic and sensitive sector of the Indian economy has led to its growing academic interest. World Bank defines MSMEs as below:

Type	Number of employees	Annual Turn over (in US\$ '000s)	Assets (in US\$ '000s)
Micro	0-10	100	10
Small	10-49	3,000	3,000
Medium	50-299	15,000	15,000

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) in India are classified as below:

Manufacturing Sector	
Enterprise Category	Investment in plant & machinery
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees
Service Sector	
Enterprise Category	Investment in equipment
Micro Enterprises	Does not exceed 10 lakh rupees:
Small Enterprises	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 core rupees
<i>Source: MSME Annual Report 2017-18</i>	

One drawback about the definition is that India still does not take into account the number of people employed. Globally, the two most important elements used to define MSMEs remain turnover and employment. The reason for not including the employment criterion may be because of inability of the system to cross check employment figures in a transparent manner. The practice of underreporting number of people employed is widespread especially in smaller units to remain below the threshold of 10 employees to save on very high social security and compliance costs.

Review of Literature

This section of the paper attempts to shed light on existing literature to grasp whether MSMEs really can boost a country's employment scenario.

The significant role of MSMEs in boosting economies of many developed and developing countries have been a topic of discussion in both academic and government circles. In light of several empirical investigations, it has been found that MSMEs occupy a considerable space in promoting employment (Garikai, 2011; Stel & Suddle, 2005). In the words of Harvie (2004), MSME sector has an immense contribution to the economy and sustained economic growth of East Asian economies. Garg et al. (2012) assert that MSME sector is the major force behind India's emerging GDP, exports and employment growth. Sharma and Afroz (2014) while drawing a link between growth of

MSMEs and consequently domestic economic growth and employment creation, advocate for a solid support needed for the surge and growth of the sector. They further added that it has a huge potential to transpire as a sector of enormous strategic importance to India. Katua (2014) draws a moderate correlation between the unemployment and the extent of dynamism of the MSMEs of a particular country. Fredrick (2005) argues that dependence on MSMEs is a major source of impetus to GDP and employment growth. It has been labelled as a stimulant leading to the economic growth of a nation as they are a major driver of income generation and employment potential and consequently poverty alleviation (Hallberg, 2001), by making substantial contribution to gross domestic product. This gets fully endorsed from the action of the World Bank which has mandated more than \$10 billion to carry out MSMEs development programs, as it believed that MSME sector has the required potential to push economic growth and reduce poverty (World Bank Report, 2011). Shettima (2017) in his study shows a positive and significant impact of SMEs on employment generation in Nigeria. Stressing upon this relationship, Singh & Paliwal (2017) summarize with a statement conveying, “owing to its potential for generating innovative entrepreneurship and massive employment, hence fuelling social and economic development in India, the MSME sector is of strategic importance to the country” (p. 50).

While undertaking a critical assessment of the contribution made by MSMEs to provide impetus to employment in eight sister states of North Eastern region of India (NER), Rajpul (2015) asserts that MSME yields a ray of hope not only to the unemployed youth of this underexplored region but also to promote fair and equitable regional growth. Sharma & Neog (2017), while approximating the role of MSMEs in generating employment in Sonitpur district of Assam, justify the significance of establishment of MSMEs towards well being of the state economy owing to its growing impact on improving the employment scenario of the state. Saikia and Hazarika (2018) opine that the MSME sector has been playing an active role in the creation of employment opportunities, self employment and entrepreneurship among youth population.

Research Questions

The above elaboration is definitely an indication of the fact that, MSMEs can play a pivotal role in fuelling the employment growth of a nation as well as a state. The distinctive benefits of these MSMEs are well acknowledged in diverse sectors of the economy. Therefore, the current paper focuses on the following research questions:

1. What is the contribution of MSMEs in the growth of Indian economy?
- 2 How do micro, small and medium enterprises (MSMEs) operating in Assam contributes to employment generation in the state?

Objectives

The objectives set for the study are:

1. To understand the role of MSMEs in propelling the economic growth of India.
2. To study the relationship between the growth of MSMEs in Assam and its contribution to employment generation in the state.

Research Methodology

The research method adopted for the purpose of the study was descriptive in nature. The study made use of secondary data that have been drawn from many secondary sources particularly government published annual reports (such as MSME reports), leading newspapers, journals, economic surveys and several other published reports. The data obtained has been presented in the form of tables and simple statistical tools like correlation was used to analyse the data extracted.

Results and Discussions

Contribution of MSME Sector to the Economic Growth of India

The contribution of MSMEs to Indian economy cannot be underestimated. India's 60 million MSMEs can broadly be defined as businesses with annual revenue up to Rs 250 cr (approximately \$35 million), which make a significant contribution to India's employment (Table 1) and GDP (The Economic Times, 21/11/2018). Apart from this, it contributes nearly 40% of country's exports and 45% to manufacturing output (MSME Report, 2017-18). MSMEs are also the largest employers, next only to agriculture (The Hindu, 09/01/2018). As per latest information, micro and small scale sector's credit growth has registered negative growth rate of 1.4% as on September 2018 against positive growth rate of 1.7% as on September 2017 (The Times of India, 12/11/2018). The estimated trends in the growth of MSMEs and their contribution to employment based on Fourth All India Census of MSME are mentioned below:

Table 1: Contribution of MSME Sector to India's Employment The gross value of

Year	Total Working Enterprises (in lakh)	Employment (in lakh)
2010-11#	428.73	965.15
2011-12#	447.64	1,011.69
2012-13#	467.54	1,061.40
2013-14#	488.46	1,114.29
2014-15#	510.57	1,171.32
2015-16#	633.88	1109.89

- Projected

Source: Annual MSME Report 2015-16 & 2016-17

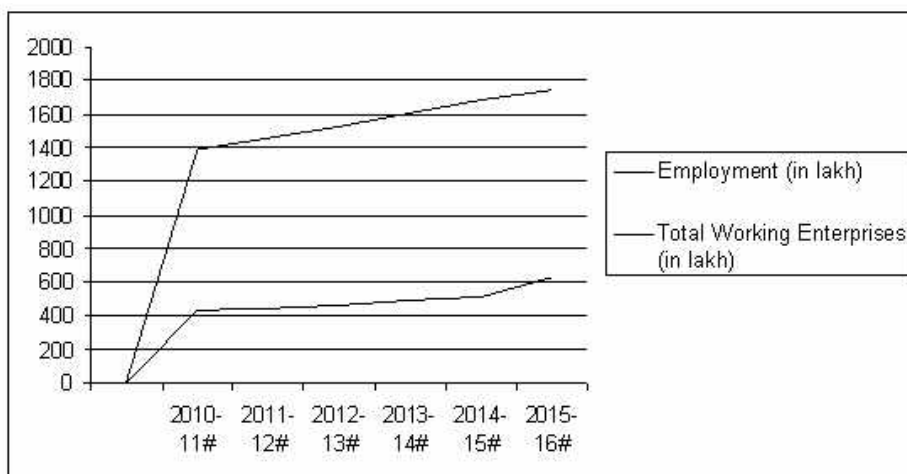


Fig. 1: Growth of MSMEs and Employment Generation in India

Indian MSME sector stood at 25, 83,263 crores during the year 2011-12 and has increased considerably to 39,36, 788 crores in 2015-16, thus making a jump of 13,53,525 crores (Table 2). The below table also reflects that there is a significant share of MSME in the GDP of our country. The year 2011-12 witnessed 29.57 percent share of MSME in GDP, which remained steady at 28.77 percent in 2015-15. The policy

makers and entrepreneurs will find it extremely difficult to overlook this number, rather this will motivate them to adopt certain steps to speed up the swelling of this sector.

Table 2: Contribution of MSMEs in Country's Economy at Current Price

(Figures in Rs. Crores adjusted for FISIM at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: MSME Annual Report 2017-18

A comparison of the two sets of outcomes obtained from Fourth All India MSME Census (2006-07) and NSS 73rd Round (2015-16) is able to seize the upward growth of the root parameters belonging to MSME sector (Table 3). Almost held after 10 years time gap, it is quite evident that increase in the number of MSMEs attained a CAGR of 6.43 percent between 2006-07 and 2015-16, whereas employment generated due to growth of MSMEs marked a CAGR of 3.63 percent in the same time period.

Table 3: Growth of MSMEs

Parameter	NSS 73rd Round, 2015-16	Fourth All India Census of MSMEs, 2006-07	Annual Compound Growth Rate (%)
No. of MSMEs (Total)	633.88	361.76	6.43
Manufacturing	196.65	115.00	6.14
Services	437.23	246.76	6.56
Employment (Total)	1109.89	805.24	3.63
Manufacturing	360.42	320.03	1.33
Services	749.47	485.21	4.95

Source: MSME Annual report 2017-18

The past few years has witnessed a gradual upward movement of Indian MSME sector despite unfavourable conditions, and it is growing at a steady positive rate of 15 percent year-on-year (The Economic Times, 22/06/2018). Realizing that MSMEs are the mainstay of Indian economy and they have a powerful, multiplier impact on the local economies, the government at the centre has been trying to push out perks for the sector as it seeks to spur economic growth. MSMEs contribute to around 95% of the enterprises of the country and make up to about 30% of the overall GDP (The Financial Express, 21/01/2019).

MSMEs and their Contribution to Catalyzing Employment Growth in Assam

The role of micro, medium and small scale enterprises is paramount to fostering employment generation and fuelling rapid industrialization of upcoming regions like North-east of India. The estimated number of working MSMEs in the North-eastern region of India is 18.92 lakhs, which give employment to 29.18 lakh people (MSME Annual Report, 2017-18). Besides this, the report also elucidates that Assam alone accounts for 64 percent of the total MSMEs in the region. Similarly, out of the total employment generated in North-east by MSMEs, Assam's share is 62 percent (MSME Annual Report 2017-18).

Moreover, there are about 45509 MSME units in the state, providing employment to 2.69 lakh persons till the end of 2016-17. The table below shows some annual statistics in respect to setting up of MSME units up to 31-03-2017 (Table 4). The tabulated data depicts the growth of MSMEs in Assam and the resulting employment generation in the state. The identified number of working enterprises in Assam in 2005-06 stood at 2082 units and employment opportunities generated out of them were approximately 10780. However, the MSMEs figure in the year 2016-17 jumped to 2177 units, which generated employment for 19355 persons across the state. This reveals that with increase in the number of MSMEs in Assam, it is plausible to attain poverty reduction and employment creation.

Table 4: Growth of MSMEs and Employment (as on March 31/03/2018)

Year	No. of MSME units	No. of Employment
2005-06	2082	10780
2006-07	2172	11852
2007-08	1692	10471
2008-09	1711	12914
2009-10	1678	12787
2010-11	1214	9002
2011-12	1287	13886
2012-13	1451	11671
2013-14	1860	12971
2014-15	2629	20496
2015-16	1898	13848
2016-17	2177	19355

Source: Economic Survey of Assam, 2017-18

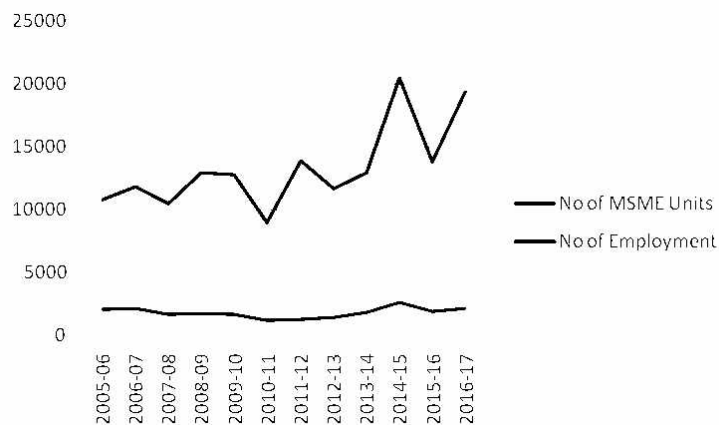


Fig. 2: Growth of MSMEs and Employment Generation in Assam

In the context of this study, it was thought to be appropriate to go for statistical analysis to establish whether the relationship between the growth of MSMEs and employment generation in Assam is statistically significant. The association between the two variables was found to be positively ($r = .672$) and significantly correlated ($p < .05$). Therefore, it reconfirms the notion that growth of operating MSMEs in Assam results in proportionate increase of employment in the state.

Table 5: Correlations

		No of MSME units	No of Employment
No of MSME units	Pearson Correlation	1	.672(*)
	Sig. (2-tailed)		.017
	N	12	12
No of Employment	Pearson Correlation	.672(*)	1
	Sig. (2-tailed)	.017	
	N	12	12

*Correlation is significant at the 0.05 level (2-tailed).

Conclusion and Implications

Although MSME sector has made a mark in its contribution to India's economy, the growth of MSMEs in Assam is relatively slower compared to its growth on all India level. The government both at the national and local level has undertaken numerous initiatives to enable the sector to grow and progress. In the context of Assam, the study succeeded to draw a parallel between the growth of MSME sector and its contribution to employment generation.

The alarming rate of unemployment in Assam happens to be one of the key drivers for the pursuit of this study. Post carrying out of the research, the findings have shown that MSMEs have considerable impact on job creation and often seen as one of the promising instruments for generating sustainable employment opportunities in the developing state of Assam. Also, its contribution has been fairly nourished by both public and private parties through numerous helping agencies and programmes.

So, it is of paramount importance that serious attention should be drawn on the MSME sector since it has the potential to achieve full employment and thereby creating greater earning opportunities for the nation in general and state in particular. Additionally, this may also go a long way in catapulting Assam on the list of topmost developed states in India by 2025.

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