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## GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES AND CLUSTER APPROACH IN INDIA

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### Abstract

*The MSMEs play a very crucial role in the development of the economy in general and that of the industrial sector in particular. This is especially true in the case of India, where crores of workers, who are less literate with no skill or semi-skilled, are forced to depend on such enterprises for their employment, income and livelihood. The MSMEs too are contributing to their potential in terms of employment creation, income generation, increasing output and also in contributing to the export growth of the country. The role played by the MSMEs cannot be underestimated in the country. In a capital-poor and labour-rich country like India, MSMEs contribute enormously in terms of basic economic parameters. While opening up of the economy during the early 1990s did have a negative impact on this sector, but the proactive efforts and policy measures taken by the Government, especially the Cluster Development approach have made a crucial impact on the growth and development of the MSME units in the country.*

**Keywords:** MSMEs, Clusters, Industry, Economy, Growth.

### Introduction

The Micro, Small and Medium Enterprises (MSMEs) play a very crucial role in the development of the economy in general and that of the industrial sector in particular. This is especially true in the case of India, where crores of workers, who are less literate with no skill or semi-skilled, are forced to depend on such enterprises for their employment, income and livelihood. The MSMEs too are contributing to their potential in terms of employment creation, income generation, increasing output and also in contributing to the export growth of the country. Needless to say, their role is quintessential given the level of technology, credit availability and infrastructural facilities in the country.

### Objectives

This paper examines the following:

1. Category-wise growth in the number of MSME units in the country in the last eight years;
2. Top ten states in the number of MSME units in India; and
3. Cluster development in India and the states with more number of clusters.

### Growth and Spread of MSMEs in India

In India, the MSME Development Act was passed in 2006 and subsequent to that the MSME enterprises are classified as under:

Prior to the enactment of the MSME Act 2006, the small scale units were required to register with the District Industries Centres.

But, after the enactment of the Act, they have to file Entrepreneurs Memorandum (Part-I) at the District Industries Centres before starting their enterprise, while they have to file Entrepreneurs Memorandum (Part-II), EM-II after their commencement. Thus, EM-II has now replaced the earlier registration of the small units with the District Industries Centres. The MSMEs' Annual Report 2016-17 reveals that the number of EM-II filed during 2007-08 was 1.73 lakhs, which has gone up to 4.25 lakhs in 2014-15. Moreover, since 2015, EM-II has been replaced by the Udyog Aadhaar Memorandum (UAM).

The data also indicate that a total of 21.96 lakhs EM-II filings had taken place between 2007 and 2015. However, since 2015, 22.40 lakhs UAM filings have taken place all over the country. It is understood that micro enterprises constitute the vast majority of the enterprises who have filed since 2015, whereas medium enterprises constitute a small proportion. The growth in the number of EM-II filings in India and their growth rate during the period 2007-08 to 2014-15 has been discussed here with the help of the data presented in Table-2.

**Table – 1 Classification of MSME Enterprises in India, 2006**

Enterprise	Investment in Plant and Machinery (Manufacturing)	Investment in Equipment (Service)
Micro	Upto Rs. 25 lakh	Upto Rs. 10 lakh
Small	Rs. 25 lakhs – 5 crore	Rs. 10 lakhs – 2 crore
Medium	Rs. 5 crore – 10 crore	Rs. 2 crore – 5 crore

Source: Government of India, (2017), *Entrepreneurs Memorandum (Part-II)*

It is noted from the table that MSME sector is highly dominated by the micro units, since their share is more than 80 percent in the given time period, even though it has come down from around 90 percent to 81.4 percent. This is compensated by the rise in the share of small and medium units. The proportion of the

former has moved up from 9.8 percent to 16.7 percent between 2007-08 and 2014-15, while that of the latter has increased from 0.3 percent to 1.9 percent in the same period. Thus, the total number of units has gone up from 1.70 lakhs to 4.25 lakh units during 2007-08 to 2014-15.

**Table – 2 Category-wise Growth in MSME Units in India, 2007-08 to 2014-15**

Year	Micro		Small		Medium		Total	
	No.	%	No.	%	No.	%	No.	%
2007-08	153110	89.9	16730	9.8	467	0.3	<b>170307</b>	<b>100.0</b>
2008-09	170262	89.7	18792	9.9	702	0.4	<b>189756</b>	<b>100.0</b>
2009-10	185180	88.0	23870	11.3	1409	0.7	<b>210459</b>	<b>100.0</b>
2010-11	205112	87.1	29125	12.4	1263	0.5	<b>235500</b>	<b>100.0</b>
2011-12	242539	86.7	34225	12.2	2949	1.1	<b>279713</b>	<b>100.0</b>
2012-13	275867	85.5	41502	12.9	5449	1.7	<b>322818</b>	<b>100.0</b>
2013-14	296526	81.7	59127	16.3	7338	2.0	<b>362991</b>	<b>100.0</b>
2014-15	346206	81.4	70933	16.7	8219	1.9	<b>425358</b>	<b>100.0</b>

Source: Government of India, (2017), *Entrepreneurs Memorandum (Part-II)*

**Table – 3 Category-wise Annual Growth Rate of the MSME Units in India, 2008-09 to 2014-15**

Year	Micro	Small	Medium	All
2008-09	11.2	12.3	50.3	<b>11.4</b>
2009-10	8.8	27.0	100.7	<b>10.9</b>
2010-11	10.8	22.0	-10.4	<b>11.9</b>
2011-12	18.2	17.5	133.5	<b>18.8</b>
2012-13	13.7	21.3	84.8	<b>15.4</b>
2013-14	7.5	42.5	34.7	<b>12.4</b>
2014-15	16.8	20.0	12.0	<b>17.2</b>

The table reveals that the micro units have grown with fluctuations over the years,

since its annual growth rate, which was 11.2 percent in 2008-09 has declined to 8.8 percent in the subsequent year, but has gone up to 10.8 percent in 2010-11 and to 18.2 percent in 2011-12. Even though, it has again come down to 7.5 percent in 2013-14, the growth rate has moved up to 16.8 percent in 2014-15. In the case of the small units, the annual growth rate has increased from 12.3 percent in 2008-09 to 42.5 percent in 2013-14, but has declined to 20 percent in 2014-15. However, as far as the medium units are concerned, there have been

wide fluctuations in their growth rate which has moved up from 50.3 percent to 100.7 percent between 2008-09 and 2009-10, but has come down to -10.4 percent in the next year. However, since 2011-12, there has been continuous decline in their growth rate. But, the annual growth rate of the sector as a whole shows more consistent picture, which has moved up from 11.4 percent to 17.2 percent between 2008-09 and 2014-15. The following chart graphically portrays the annual growth rates of the categories of MSME units in India.

However, spread of the MSME units is not quite uniform across the country, since out of the 4.53 crore MSME establishments in the country, the top ten states accounted for 73.82 percent. The number of units in the top ten states and their percentage share is shown here in Table – 4.

**Table – 4 Top Ten States in the Number of MSME Establishments in India, 2016**

States	Number	%
West Bengal	5269814	11.62
Uttar Pradesh	5238568	11.55
Maharashtra	4545581	10.02
Tamil Nadu	3282197	7.24
Andhra Pradesh	2781291	6.13
Kerala	2364085	5.21
Rajasthan	2270936	5.01
Gujarat	2218464	4.89
Karnataka	2188860	4.83
Madhya Pradesh	1958550	7.32
Total	32118346	73.82
<b>All-India</b>	<b>45363786</b>	<b>100.00</b>

The table indicates that out of the 4.53 crore units, West Bengal alone accounts for 11.62 percent, and it is followed by Uttar Pradesh with 11.55 percent, Maharashtra 10.02 percent, Tamil Nadu with 7.24 percent, and Andhra Pradesh with 6.13 percent. Other states in the 'top ten' category are: Kerala, Rajasthan, Gujarat, Karnataka and Madhya Pradesh. This clearly underlines the point that the MSME units are not uniformly spread out all the country, since around three fourths of the total units are found in only ten states.

The performance of the MSME sector in India is traced in terms of number of working establishments, employment generated by them and the market value of their fixed assets during the period 2007-08 to 2014-15 and Table – 5 presents the required data.

It is noted that the extent of employment generation through MSMEs in the country has moved up from 842 lakhs to 1171.32 lakhs between 2007-08 and 2014-15 and their value of fixed assets too has grown from Rs. 920 thousand crore to Rs. 1472 thousand crores in the same period. Hence, the MSMEs play a very crucial role in contributing to the generation of employment opportunities in the country, which is quite suited to the nature of labour, which is highly characterised by semi-literate, either unskilled or semi-skilled.

## **MSMEs and Clusters in India**

### ***The Cluster Approach***

The concept of cluster which is originally referred as agglomeration dates back to 1890 in the work of Alfred Marshal. He examined the idea of clustering in industrial organizations. Marshall explained the reason for particular specialized industries to concentrate in selected areas through industrial districts which he defined as concentration of specialized industries of similar kind in a particular locality. Poudner and St. John (1996) describe geographic clustering of firms in the same industry through hot spot which they defined as regional clusters of firms that compete in the same industry, begin as one or several start-up firms that, as a group, grow more rapidly than other industry participants in sales and employment levels, and have the same or very similar immobile physical resource requirements in the long run. However, Porter (1998) was the one who gave the cluster concept relevance. Porter defined clusters as geographic concentration of interconnected companies and institutions in a particular field which includes all stakeholders. Clusters are defined as sectoral and geographical concentration of enterprises, especially small and medium, which share a future, both in terms of opportunities and threats (UNIDO, 2006; Das et al., 2007). A Cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, that share common markets, technologies, worker skill needs, and which are often linked by buyer-seller relationships (Planning Commission, 2012).

### ***Cluster Development in India***

The MSME sector was hard hit by the new economic policy of 1991. The sector was

vulnerable since it had neither the size nor the technology advantage to compete at the global level, when the economy was suddenly opened up and there was no level playing field. Small scale industries observed deterioration in their performance after 1991. Though the numbers of units were increasing in absolute figures, the compound annual growth rate has decreased from 10 percent in 1977-1992 .i.e. pre-reform periods to 8.97 percent after 1991 .i.e. post-reform periods from 1992-2002. This was supported by further annual decrease during 2002-2006. Employment generation has always been one of the main objectives of the policies aimed at economic development and growth of the nation. The compound annual growth rate has decreased from 5.45 per cent in pre-reform period to 5.33 per cent in post reforms period. Similarly, the compound annual growth rate has decreased from 91.06 per cent in pre-reform period to 16.81 per cent in post reforms period. This further went down during 2002-06 (Rawat et al, 2017).

This underlines that the small scale sector does not get the required support from the Governments. Thus, it became necessary to assist this sector to improve its performance. Several promotional measures were taken by the Government. Keeping in view the enormous potential of this sector, the Department of small scale industries and Agro & Rural industries (DSSI & ARI), Ministry of industry set up Abid Hussain Committee in 1995. The Committee advocated cluster development as the approach to be followed to promote SSI. It said that cluster based approach is a very practical approach to SME promotion in India since there already exist a large range of small scale industry clusters across the country (Narayana, 2007).

The numerous advantages of operating in a cluster have prompted several regional and local organisations to take up cluster-based projects and promote smaller firms. The early advancements in the field are formation of National Small Industrial Corporation Ltd., Small Industries Development Bank of India, Khadi and Village Industries Commission, The Baba Saheb Ambedkar Hastshilp Vikas Yojana Scheme, United Nations Industrial Development Organisation Cluster Development Programme, State Bank of India's UPTECH Programme, and Rajasthan Chamber of Commerce and Industry, among

others. To avail benefits from these schemes, the government is actively disseminating information amongst rural entrepreneurs. Moreover, schemes and programmes supporting infrastructure, skill set, and entrepreneurship and technology development, coupled with cluster-building activities, would help in optimising the returns and maximising the country's growth in the long term (Singh, 2010). The number of clusters in the major states of the country and their percentage share is shown in Table – 6.

State	Clusters	%
Maharashtra	58	14.9
Gujarat	49	12.6
UP	40	10.3
Andhra	32	8.2
Punjab	30	7.7
Tamil Nadu	28	7.2
Haryana	24	6.2
Karnataka	20	5.2
Rajasthan	20	5.2
Delhi	19	4.9
WB	17	4.4
Orissa	13	3.4
Kerala	10	2.6
MP	10	2.6
J & K	5	1.3
Bihar	3	0.8
<b>All-India</b>	<b>388</b>	<b>100.0</b>

It is clear that out of the 388 clusters which are in operation in the country, 61 percent of them are located in the top six states, viz., Maharashtra (14.9 percent), Gujarat (12.6 percent), Uttar Pradesh (10.3 percent), Andhra Pradesh (8.2 percent), Punjab (7.7 percent) and Tamil Nadu (7.2 percent). In states like West Bengal, Orissa, Kerala, Madhya Pradesh and Jammu and Kashmir, the proportion of clusters is less than five percent.

### Conclusion

The role played by the MSMEs cannot be underestimated in the country. In a capital-poor and labour-rich country like India, MSMEs contribute enormously in terms of basic economic parameters. While opening up of the economy during the early 1990s did have a negative impact on this sector, but the proactive efforts and policy measures taken by the Government, especially the Cluster Development approach have made a crucial

impact on the growth and development of the MSME units in the country. However, there needs to be more balanced spread of the units across all states and all sectors in order to broad base the growth of this sector in the coming years.

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