



## A study on formal and non-formal MSMES contribution towards GDP in Global Countries

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### Abstract

The study aims to investigate the share of MSMES in the global level among the developed, developing and least developing countries. The studies further examined based on Micro and Small Enterprises (MSEs) and Non-Micro and Small Enterprises (Non-MSEs) and their contribution towards GDP in global countries. The finding of the study revealed that most developed and developing countries have highest numbers of micro enterprises which shows that most of developed and developing are focusing on micro enterprises. There are 26 percent of MSMEs worldwide are formal and the remaining 74 percentage are informal (non-registered) firms. This study suggests that Non-MSEs forms of business is risky for economic development in worldwide countries. Therefore global countries should take necessary measures to regulate formal MSEs with feasible policies for economic development of the country.

**Keywords:** micro, small and medium enterprises

### 1. Introduction

The Micro, Small and Medium Enterprises are recognized in worldwide for the fact that they make up the largest business sector in every economy (Mugbo, 2013). The government in different parts of the world increasingly promoting and supporting the growth of MSMES as force for the promotion of an economy and they contribute immensely to economic development (Turyahewa, Sunday and Sekajugo, 2013.) The major contribution of the small enterprises in the form of manufacturing MSME is basically on their potential to create employment to thousands of people in the county. The global scenario, women entrepreneurship has emerged in the forefront. According to the global Entrepreneurship Monitor, one in eleven 8.9 (percent) women is involved in entrepreneurship across globe and India occupies the second position among the 22 countries were 14. Percent of women have ventured into entrepreneurship. According to World Bank, there are 200 to 245 million formal and informal enterprises that do not have a loan or overdraft, but are in need of one, or do have a loan but still firm access to finance as a constrains more than 90 percent are MSMES. The informal firms are estimated to account for around 74 percent of all MSMEs in the world, and around 77 percent of all MSMEs in developing countries

There are a number of socio-economic issues which are of serious concern to an emerging developing country like India, which has the 2nd largest population in the world of over 130 crores. Currently, India faces major socio-economic problems such as unemployment, poverty and low investment which has serious impact on the micro and macro economy of the country. There are several other areas of concern such as, imbalance in regional development, under developed infrastructure in rural villages and underutilization of natural and human resources. These deep rooted problems hinder the economic development in the country. To overcome such socio-economic issues, developed and developing countries around the world consider promoting Micro, Small and Medium Enterprises

(MSMEs) for their sustained economic growth. The development of MSMEs is extremely critical to meet the national imperatives of financial inclusion and generation of significant levels of employment in urban and rural areas across the country. The continuous initiatives are taken by the ministry to promote MSMEs in all areas of agriculture, manufacturing and services sectors because each of these sector will continue to be every relevant to the overall GDP growth as well as employment generation. To accelerated the growth by promoting of start-up and stand-up initiative in India.

MSME remain the backbone of India economy and will have to play a decisive role if India is to achieve its goal of becoming a USD 5 trillion economy by 2022 and providing employment to 12 million young people every year. India is already the world 3<sup>rd</sup> largest startup ecosystem and the youngest startup nation. As India's GDP growth is expected to touch 8 percent plus again and the country likely to emerge as a USD 5 trillion economy by 2025. MSMEs and start up will create in a new generation of companies that will lead India growth in the next decades. According to International Council for Small Business formal and informal Micro, Small and Medium size Enterprises make up over 90 percent of all firms and account on average for 60-70 percent of the total employment and 50 percent of GDP. MSMES tend to employ a large share of the vulnerable sectors of the workforce, such as women, youth and people from poorest households.

### 2. Review of Literature

1. **Mark D. Griffiths, Lisa K. Gundry, Jill R. Kickul (2013)** <sup>[2]</sup>: Investigated the macro-level influence of social-political, cultural and economic factor of enterprises. The study is based on secondary source of data collected from Global Entrepreneurship Monitor, which is a multi-country data in 2009, and used of hierarchical regression model. The study is based on the series of three stages for the entire variable was entered in the following order, first socio-political, second

cultural, third economic variables. They found that social political factors accounted for 76 percent of entrepreneurial activities. The greatest determinant of social entrepreneurial activity is the degree of female participation in the labor force.

2. **Val Lindsay, Nicholas Ashill and Antong Victorio (2006)** [3]: Examined the role of formal and informal institutional factors for the growth for micro, small and medium enterprises. The study is based on secondary sources of data collected from various sources of concepts of past research papers. The formal institutional support such as structural support system, social support system, incentives, policies and bureaucratic processes. The informal institutions supports such as family network, risk propensity and social acceptance. The study focuses on tangible and intangible institutional factors that are shaping the performance of entrepreneurial firms in a geographically and policy of MSMs.
3. **Olawale Fatoki and Francis Asah (2011)** [4]: investigated the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in South Africa. The study is based on primary source of data collected through questionnaire that uses statistical analyses including descriptive statistics, Pearson correlation and logistic regression. The study results indicated that entrepreneurial characteristics have an impact on access to debt finance by SMEs. Their study also recommended that enterprises owners/managers should be investment ready by providing collateral, attend seminars and training programs to improve on their managerial competence.
4. **Patrick Kwashie Akorsu and Daniel Agyapong. (2012)** [5]: Examined on developing an alternative model for raising funds and advancing credit to SMEs in Ghana. His study is based on secondary source of data collected in Ghana from small and medium enterprises. Their found that in appropriate risk management, moral hazard and possible adverse selection restrict their access to sources of credit from financial institutions. They also found that as financial institutions are not granting adequate credit to enterprises until collateral is provided, therefore there is a need for alternative model for the funding of SMEs.

**3. Objective of the study**

The research study major objective is based on two dimensions of MSMEs and Non-MSMEs in global countries and to identify their major role for the economic development is measured by GDPs. The objective of the research study:

1. To understand the Global share of Micro, Small and Medium Enterprises.
2. To examine the major countries share of MSMEs and Non-MSMEs to GDP
3. To suggest suitable feasible policies to regulate formal MSEs.

**4. Methodology**

This section of the study gives detailed information relating to the methodology adopted in the present study, towards fulfilling the objectives stated above. The present study is based on secondary sources of data relating to the objectives framed for this study. The secondary source of data is

collected from the International Finance Corporation’s, MSME Reports, KPMG report, e-books and e- journal etc. The secondary sources of data were collected for the period from the year 2000 to 2016. This study used percentage and graphical presentation.

**5. Analysis and Discussion**

In this section, an attempt is made to analyze the data and information collected for the study to expose the ‘formal and informal MSMEs at global level with GDP’. For data analysis, the collected data were systematically processed, tabulated and made suitable for analysis and interpretations. The results obtained were classified and tabulated. The following analyses were performed to fulfill the objectives of the study.

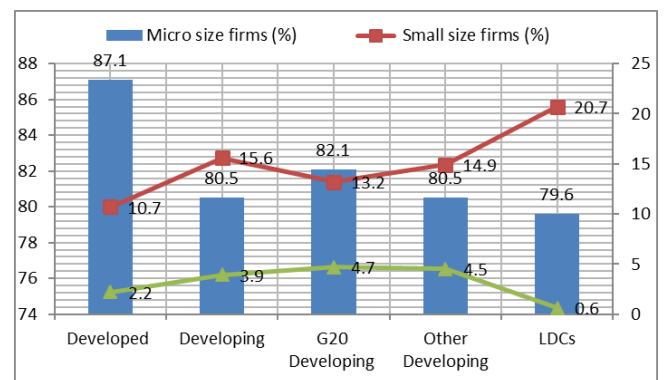
**5.1 Global share of Micro and Small and Medium Enterprises**

As stated above, MSMEs play a major role in the economy of every country and they significantly contribute to the Gross Domestic Product (GDP) of respective country. The share of Micro, Small and Medium enterprises at the global level between the developed, developing countries and other least developing countries are categorized in the following Table # 1.1 for an understanding on the importance of MSMEs to the economy.

**Table 1:** Global share of Micro, Small and Medium Enterprises

Countries	Micro size Firms (%)	Small size Firms (%)	Medium size Firms (%)
Developed	87.1	10.7	2.2
Developing	80.5	15.6	3.9
G20 Developing	82.1	13.2	4.7
Other Developing	80.5	14.9	4.5
LDCs	79.6	20.7	0.6
Total	82.9	13.8	3.3

*Source:* International finance Corporation’s (IFC) MSME Country Indicators, 2016)



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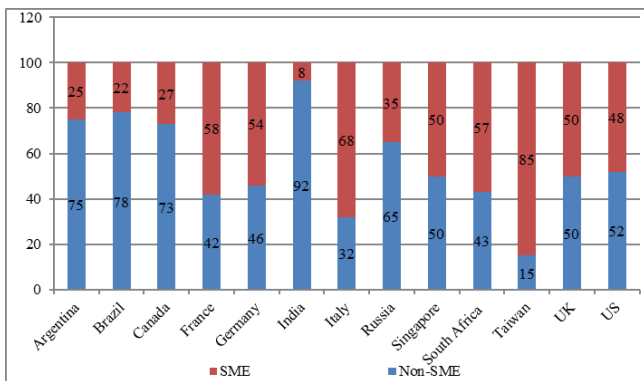
**Fig 1:** Global share of Micro, Small and Medium Enterprises

The above Table # 1.1 and Graph # 1.1 shows the global share of micro, small and medium enterprises. Globally, about 82.9 percent are micro enterprises. The developed countries share stands at around 87.1 percent of micro enterprises as compared to developing and least developed countries in the world. The above table also reveals that the share of small enterprises in least developed countries is 20.7 percent. Large number of medium enterprises come under the category G20 countries. Moreover, the table also

indicates that developed, developing, G20, low-developed and other countries have highest share of micro firms of around 80 percent. This shows that in developing countries specifically, small firms can be significant vehicle of social inclusion, for instance by providing opportunities for employment, production and economic development. World Bank Report, (2012) determined that around 200 million people are currently un-employed and 600 million jobs need to be created by 2020 mainly in developing countries. A number of those jobs are expected to be generated in the MSME sector. As stated in the data provided above, most developed and developing countries have highest numbers of micro enterprises, which shows that most of developed and developing are focusing on micro enterprises.

**5.2 Major Countries Share by MSEs and Non-MSEs to GDP**

The global contribution of Micro and Small Enterprises (MSEs) and Non-Micro and Small enterprises (Non-MSEs) and their contribution towards GDP is represented in a graphical form below.



Source: Country Specific MSME Reports, KPMG Data)

Fig 2: Major Countries Share by MSEs and Non-MSEs to GDP

The above Graph # 1.2 shows that the enterprises classified based on formal MSEs and Non-MSEs. These two categories of enterprises are very important in the context of understanding their contribution to GDP. Formal MSEs are generally officially registered. Whereas informal MSEs are not registered enterprises. Hence, it is difficult to compare the informal MSEs across the counties. The International Labour Organisation (ILO, 2015) reports that 26 percent of MSMEs worldwide are formal and the remaining 74 percentage are informal (non-registered) firms and non-employers (one person enterprises either registered or non-registered). According to a study conducted International Finance Corporation (IFC), across 132 countries, there are 125 million MSMEs among which 85 million are located in emerging economies. Globally, this sector has registered a growth of 6 percent between 2000-2009, with Europe and Central Asia experiencing a growth of 15 percent

From the above table, it is found that in India, formal MSMEs contribute 8 percent towards GDP and Non-MSEs contribute 92 percent. This shows that more non-formal businesses are existing in India. As, non-MSEs form of business is risky for economic development, the Government of India should take necessary measures to regulate informal business, promote MSEs with feasible policies, and establish formal MSE business for the sake of economic development of the country [6].

**6. Suggestion and conclusion**

The research study discussed on the formal and informal MSMEs in world countries base on developed, developing and least developed countries. This study specifically reference to the MSEs and Non MSEs to GDP in world countries that affects the performance of MSMEs. The value of the SMEs sector is recognized in economies worldwide irrespective of the economy developmental stage. The contribution toward growth, job creation and social progress is valuable highly and SMEs is regarded as an essential element in a successful formula for achieving economic growth. The present study was an attempt to understand the Importance and ill effect of MSMEs and Non- MSMEs in would countries with GDP. The study recommends that majority of micro and small enterprises play important role for developed countries. In this way, SMEs irrespective of size are able to optimize their financial and operation ration which enable them to support higher level of debt and equity funding of MSME. The challenges, an opportunity arises for both policy and intervene at various levels to try to encourage the formalization, participation and growth of micro, small and medium enterprises in international, regional and national market, including through access of micro finance and credit.

**7. Reference**

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