



Promotion of Micro Small Medium Enterprises (MSMEs) and its Contribution to the Growth of Indian Economy

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Abstract

Micro Small and Medium enterprises has been termed as an catalyst in the growth and development of Indian Economy. It is a vibrant and dynamic sector in economically backward and rural regions of India. Even though the MSMEs are in the midst of series of challenges and trails, this sector has been contributing a lot to the development of Indian economy.

Keywords

Micro, Small and Medium Enterprises, MSMED Act, Make in India

1. Introduction

'Small is beautiful'- The saying is very applicable in the purview of the study of Micro, Small and Medium Enterprises (MSMEs). MSMEs are small in nature but major in economic development of nations since they act as the backbone of countries by creating employment opportunities in remote and rural areas for past many years even during the terrific situation of global recession and economic slowdown. Furthermore it is noted that MSMEs acts as keystones in in the authentic economic revival and growth of many nations. The formation and formulation of MSMEs are vary from country to country. In India, during the last few decades, MSMEs has become highly vibrant to create different income generating opportunities for millions of people both in social and economic development and particularly acted as a keystone for a significant economic development. The MSMEs are defined under section 7 of the Micro, Small, and Medium Enterprises Development (MSMED) Act 2006.

2. Statement of the problem

The entire sectors of MSMEs are fraught with unending problems, of which the scarcity and source of required fund is the severe impediment for the functioning of most of MSMEs. It has been noted that such organizations, most probably, are unnoticed while finalizing the budget of any government official body namely local authorities, state and central governments. This leads to some of the major hinderances like financial exclusion, financial illiteracy, inadequate support to MSMEs in the form of infrastructure, geographical proximity, technological, market interface, etc. High rates of interest on bank loans, various credit and borrowing facilities and high debt

equity ratios are also to be considered as parallel obstacles for the smooth functioning of MSMEs. Thus the issues has to be addressed properly to lift MSMEs to the main stream of economic contributors.

3. Significance of the study

Concentration on the rural and domestic industries are highly essential and recommended for the growth of any economy especially the mixed economies like India. From a strategic point view, for every economy, capital formation can be easily achieved with the help of micro small and medium enterprises. This strategy is not surprising because, for a long time, the MSMEs are contributing a lot for the economic and sustainable development. The contributions of MSMEs to the economy are noble in nature, but needed to be supported by both state and central government for solid and progressive developments. The latest survey reported that this sector employs over 124 million people and creates nearly 1.3 million jobs every year, though it operates mainly in rural area. The survey also stated that of the 58.8 millions of MSMEs, 59 percent¹ of which are in rural India. The general contribution of MSMEs to the Indian Economy is as follows;

Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

4. Objectives of the study

MSMEs are complementary sector to the economic development of a nation and they are widening the range of its products and services to national and global market. Thus the main objective of the study is to identify the most efficient ways through which MSMEs could be supported. Some of the main objectives of the study are;

- To portrait the important legal and functional aspects of MSMEs, along with its various schemes, financial assistance, constrains, issues and challenges.
- The study also put forward certain recommendations and suggestions to overcome its barriers so as to become the main wing of the economic sector of Indian economy.

5. Scope of the study

MSMEs are to be treated as one of the biggest contributors to any growing economy. The same goes with the case of Indian economy, because MSMEs can be seen in every sector of Indian economy such as production, manufacturing, telecom, food, real estate, financial services, education, etc.

¹ Business Line, June 25, 2019

6. Methodology

The study is primarily based on the secondary data to gather information about MSMEs. Various annual reports, published articles, books, journals, government policies and programs related to MSMEs and official websites are some of the main sources of secondary data.

7. Limitation of the study

The main limitations of the study are as follows;

- a. The study gives only a general view about MSMEs
- b. The study is based on secondary data

8. Classification of MSMEs

As per the provisions of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006², the micro small and medium enterprises are classified as follows;

8.1 Manufacturing Enterprises – Manufacturing enterprises are those business industries established to produce goods. It can be either independent business unit or joint venture.

8.2 Service Enterprises – A service enterprise is an organization operates with volunteers to deliver its mission with non-profit motive.

The limit of investment of MSMEs are summarised as follows;

SI No	Enterprises	Manufacturing Sector	Service Enterprises
		Investment and Plant and Machinery	Investment in equipments
1	Micro Enterprises	shall not exceed twenty five lakh rupees	shall not exceed ten lakh rupees
2	Small Enterprises	It shall be twenty five lakh rupees to five crore rupees	It shall be ten lakh rupees to two crore rupees
3	Medium Enterprises	It shall five crore rupees to ten crore rupees	It shall be two crore rupees to five crore rupees

9. Relevance and importance of MAMEs in Indian Context

In India, MSMEs has been introduced in 2006 with the aim to create large scale of employment and industrialization in rural and backward regions. Some of the importance and relevance of MSMEs are described below:

9.1 Capability to Develop Indigenous Technologies – To become successful, the organization has to undergo innovations and it also has to experience setbacks and failures. Later this will be turned as indigenous technologies.

9.2 Competitiveness in Domestic, National and International Market – The size of the enterprises shapes the competitiveness of MSMEs. To become competitive, MSMEs have to achieve higher levels of its

² msme.gov.in

organizational structure, that is domestic, regional, national and international with its efficiency in productivity, operations and strategies.

9.3 Flexible in Nature – Higher flexibility is yet another trait of MSMEs. It can act according to the need, function according to relevance and establish as per norms. Flexible production and manufacturing system, locational flexibility, operational flexibility and flexibility to act according to the economic conditions are some of the features of MSMEs.

9.4 High Contribution to Rural and Domestic Production – India is predominantly a rural country because two third of the population residing in rural areas. Despite of urbanization and industrialization MSMEs are surviving, because it could contribute a lot to the Indian economy in the form of rural and domestic production.

9.5 Large Contribution To Rural Production with Economic Stability – The large production in rural area ensures the economic stability. Economic stability is the result of constant output from different sectors. If MSMEs are able to guarantee a large output from its end, it would result in economic stability and growth.

9.6 Large Scale of Employment Opportunities – The employment opportunities in MSMEs are enormous because it has a diversified operations and functions. The exclusive nature of the sector is that it has required only a low capital to start a new venture. Starting new ventures in remote areas certainly will create ample job opportunities.

10. Financial Support to MSMEs

MSMEs can take off its functions with adequate financial support from different sources. The main sources of finance of MSMEs are long and medium term loans, own fund, risk capital, seed capital/marginal money, short term/working capital, etc. They can obtain the financial support from Co-operative banks, Regional/Rural Banks, Commercial Banks, Small Industries Development Bank of India (SIDBI), State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), etc.

11. Schemes to Support MSMEs

To boost the MSMEs, the government has launched various schemes, policies, programs, etc. Some of them are Scheme of Fund for Registration of Traditional Industries, Credit Guarantee Scheme (SFURTI-SI), Prime Ministers Employment Generation Programme (PMEGP), Credit Linked Capital Subsidy Scheme (CLCSS), Technology Centre Systems Programme (TCSP), etc.

12. Challenges and Issues of MSMEs

As mentioned above, in a developing country like India, MSMEs have a pivotal role to stabilize the economy with its contributions. Despite of the various support and assistance, it is noted that the MSMEs are facing large problems for its own survival. This study also highlights certain important challenges and issues in association with the functions of MSMEs. Some of the important challenges and issues are summarised in the following.

12.1 Financial Exclusion – The issue of financial exclusion has been a major challenge to the existence of MSMEs in developing countries like India. Despite of the relevance and importance, the access to formal and adequate financial assistance has become a hindrance for MSMEs to become flourish. It is also noted

that the traditional financial support and credit facilities may no longer sufficient for MSMEs. Thus it has to find out new avenues to become financially sound.

12.2 Lack of Adequate Finance – Non-availability of adequate finance is the key factor that directly impact the growth and survival of manufacturing and service sectors of many MSMEs. Lack of adequate finance could be a result of the restricted access to credit.

12.3 High Cost of Credit – The high cost of credit is another impediment for the growth and development of MSMEs, which makes a large contribution to the growth and survival of economy. Reduced interest rate, minimum collateral formalities and improved access to credit will give a boost to this sector³.

12.4 Financial Illiteracy – Financial illiteracy can be termed as a status in which an organization is unable to manage its finance and source of finance effectively to achieve the goals and objectives of that organization. Many a times this is visible in the case of MSMEs.

12.5 Inadequate infrastructure facilities – Inadequate availability of infrastructure facilities in MSMEs are the main bottlenecks to become national and international. It causes serious damages to procurement of raw materials, production and distribution of its products and services.

12.6 Inability to Link with Domestic and National Market – Inability to link with domestic and national market can be termed as market failure. It is mainly due to the inefficient distribution channels. To become economically efficient, MSMEs have to act perfectly with the national interest.

12.7 Underperforming Human Resources – Another important challenge of MSMEs are the incompetency of human resources and their underperformance. Constant performance appraisal, target oriented performance, incentives, etc. can boost the human resources.

12.8 Inadequate Technical Support – MSMEs in particular does not have enough technical support or insufficiently technically trained staff. The main reason for this is due to the MSMEs' lack of knowledge about how to use the new technologies.

13. Recommendations and Suggestions

The recent trends in MSMEs sector shows that it has a substantial role in the Indian economy with significant contributions namely production, employment generation, export and also an inclusive growth in economy. In order to enhance the competitiveness of MSMEs, the following recommendations and suggestions are relevant.

13.1 Crowd Funding – One of the most important finding of the paper is that the MSMEs have to opt for crowd funding for its sustainable growth and development. Since financing is considered as one of the most important obstacle for the survival, the MSMEs can introduce a system of crowd funding through which the required finance can be raised from multiple lenders. To promote the crowd funding the MSMEs can promote peer to peer (P2P- it is a lending platform in which investors and borrowers can engage in money transaction, provided that both should have similar requirements) lending as well.

13.2 Financial Inclusion – Financial inclusion means that the affordable financial products and services are offered and delivered equally to organizations irrespective of the size, nature and its net worth. Financial

³ Business Line, June 25, 2019

inclusion mainly focuses on providing adequate financial support to MSMEs without having any unfair treatment. This eliminates the initial financial struggle of MSMEs.

13.3 Adequate Financial and Credit Support – The growth of MSMEs are totally based on ‘timely adequate financial and credit support’. Finance is being treated as the lifeblood of every business for its growth and survival. MSMEs are in need of timely financial support not only for daily operations but also for diversifications, expansion, upgradation, etc.

13.4 Financial Literacy – Financial literacy in MSME sector can be called as the competitiveness strategy for MSMEs. Even though a large number of financial products and services are available, most of the MSMEs are not familiar with the wide range of products and services such as various credit facilities, savings, borrowings, interest rates, etc. Thus various avenues namely NGOs, government programs on finance at rural and regional area, experts advice, etc. has to be created for the financial literacy.

13.5 Adequate Infrastructure Facilities – Adequate and common infrastructure facilities are highly essential for the survival of MSMEs. In the present context, it is highly unaffordable for each individual MSME to raise fund for infrastructure facilities. Since most of the MSMEs are in remote areas, it can join together to share the investment for infrastructure facilities which is mainly used for procurement of raw materials, transportation, testing of products and even for research and development.

13.6 Adequate Market Linkage – Market linkage can be defined as a physical connection between producers and consumers on account of exchange of goods and services for making profit. Identifying the proper market linkage for MSMEs are a task and challenge. The mechanism of market linkage is indented to achieve the desired goals of both producers and consumers. The market linkage shall be innovative, efficient, competitive and also should facilitate economic growth.

13.7 Human Resource Development and Capacity Building – In the face of life long functions and operations of MSMEs, human resource development and capacity building is a serious need. Human resources are treated as assets in many organizations. Strengthening the capacities of employees and organizations ensures sustainable and enduring growth. Thus to bear fruit, there is a need for human resource building and capacity building.

13.8 Technical Support – In general MSMEs are treated as large industries with many ancillary units to contribute enormously for the socio-economic development of the country. This in way reflects not only the financial empowerment but also technical support. Finding a right technology in a right manner for a particular enterprise is a cumbersome task. The competitiveness of this sector is assessed subject to its potency to use the available resources effectively and profitably and also how the sector is marketed its products to national and international level. This monitoring and evaluation is possible only with the help of latest infrastructure facilities and techniques. Though the country is lagging very much in in this, it is the right time for research and innovation to ensure digital platform for MSMEs. Every MSMEs are also expected to practice ZED (Zero Effect and Zero Defect) in their manufacturing process and this practice ensures continuous improvement and growth in their respective enterprises.

13.9 Survival of Sick Industries – Being sick is a warning. It is noted that many MSMEs are becoming sick due to many reasons. This increasing trend has to be controlled by giving potential nursing care or proper rehabilitation. The non-viable units have to be identified at the earlier stage, so that appropriate yardsticks can be developed. Improved management, technical and financial support and professional counselling to human resources are some of the measures for the revival of sick MSMEs.

14. Conclusion

The undeniable fact of the Indian economy is that it can compete with any other country including the developed countries. 'Make in India' is a dream and an emerging drive and with this dream and drive, in the forthcoming years, India will be able to become the most powerful economy with its productivity, infrastructure, ecosystem, economic stability, innovation, financial soundness and dominance in national and international market. For this, the contributions to Indian economy by MSMEs are unique and undisputable. Thus the state and central government has to realize the need of the hour and if they can act according to the requirements of MSMEs, then the dream of Make in India will become a reality.

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