

Micro, Small and Medium Enterprises - As an Engine of Economic Growth

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Abstract

Building a strong industrial sector is always on top of the agenda for policy makers and those governing the country. Industries not only provide goods for internal consumption and exports but also have highest role in offering employment to the youth of the country. While the big industries like iron & steel, cars, electronic items, etc are in focus while discussing GDP and economic growth, there is a Small Industrial Sector that plays an important role in both manufacturing products and employment generation but is hidden from view of economists and policy makers. This is the Micro, Small and Medium Industries sector. In India, the MSME sector employs nearly 11 crore people and contributes to around 17 percentage of the GDP. This sector has been globally recognised as a major contributor to GDP and stimulator for economic growth. The sector complements large businesses as ancillary units in fulfilling their business requirements and needs, thereby contributing to the socio-economic development and inclusive growth of the country. The present study makes an attempt to focus on the huge growth potential/opportunities available in India for development and simultaneously analyzing the performance of MSMEs and the constraints faced by them.

Keywords: *Micro, Small & Medium enterprises, GDP, Socio-Economic development, Inclusive growth, Ancillary.*

Introduction

Micro, Small and Medium Enterprises have a strategic role to play in the economy of every country. They help to generate employment in the unskilled, semi-skilled and skilled genre, that too at a low capital cost as these units are basically labour intensive. They also sustain rural economies as many of these products are developed indigenously in rural areas. Products ranging from the khadi kurta that one wears for occasions, cottage products like honey and coir to the many ancillary items used in industrial production are all manufactured in this sector. The products are usually so unique that they offer great potential for export thus generating revenue in international currency. Due to low production costs and cottage industry like work environment, they can hold themselves up even during economic instability. From the Indian economic perspective, the sector occupies a

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position of the strategic importance. Nearly, 90 percent of the industrial units belong to this sector, employing 40 percent of India's workforce. The sector produces more than 8000 products ranging from the traditional to high-tech precision items. With Indian economy on the fulcrum of the ever-rising growth curve, which is likely to become a \$5 trillion economy by 2025, the development of the sector has become all the more critical. Global competition is the trigger force for any enterprise. MSMEs have potential for flexible adaptation to global challenges in changing market conditions and competition. MSMEs are the engine of growth for Indian economy as this sector has been spreading entrepreneurial culture in all parts of the India. The contribution of MSME sector is 45 percent of manufacturing output and 40 percent of exports of the country. As per the Report of the Working Group on Micro, Small and Medium Enterprises Growth for 12th Five Year Plan (2012-17), the sector provides employment to about 69 million persons through 26 million enterprises throughout the country. Thus devising innovative policies, programmes and schemes that can strengthen the entire MSME ecosystem has become a priority for the Government.

Review of Literature

Export-Import Bank of India, (2012) has critically analysed the present situation of MSMEs and support systems available in India as well as in the global context. It has suggested that MSMEs in India should have access to alternative sources of capital like angel funds/risk capital etc. and that existing laws should effectively address issues like insolvencies/bankruptcies; need to redefine the ceiling limits to encourage MSMEs to move up the value chain and need for cluster development approach to increase the level of competitiveness.

Srinivas K T, (2013) has studied the performance of micro, small and medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

Christopher J. Green, Colin H. Kirkpatrick, and Victor Murinde, (2006) in their paper have examined the ways in which financial sector development policy might contribute to poverty reduction, particularly by supporting the growth of micro and small enterprises (MSEs). This paper highlights on the changing role of MSEs in the development process and the access of MSEs to informal and formal finance, including the role of microfinance. K, Vasanth, Majumdar M., K. Krishna (2012) in their paper have stated that since several successful models of the sustainable SME are gradually evolving, networks of SMEs would become essential for addressing the systemic problems underlying the industrial ecology, enterprise resilience, and global supply chain sustainability.

Parthajeet Das (2017) in his paper has analysed the performance of MSME sector and their contribution in the overall growth of India and concluded that this sector possesses enough potential and possibilities to push-button accelerated industrial growth in India.

Objectives of the study

- To analyse the performance of micro, small and medium enterprise sector in India.

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- To highlight the huge growth potential and opportunities available for the development of MSME sector.
- To identify and evaluate the issues, challenges and the constraints confronted by these enterprises and to offer suggestions to overcome the same.

Methodology and database

The study is a descriptive and analytical one, therefore it is mainly based on secondary data. The secondary data has been collected from different published sources like Government policies/programmes, Annual Reports, Journals, articles, manuals, research papers and the Government official website of MSME.

Analysis

The Micro, Small and Medium Enterprises (MSMEs) are considered the backbone of most economies globally. Everybody acknowledges their immense contribution which cuts across socio-economic, political and technological dimensions in a society. In India, MSMEs are defined on the basis of investment in plant and machinery (excluding land and building) as opposed to turnover/employment based criteria in most other countries.

Definition of MSMEs

Categories	Manufacturing (in Rs) (Investment in plant and machinery)	Services (in Rs) (Investment in equipment)
Micro	Does not exceed 25 lakh	Does not exceed 10 lakh
Small	More than 25 lakh but does not exceed 5 crore	More than 10 lakh but does not exceed 2 crore
Medium	More than 5 crore but does not exceed 10 crore	More than 2 crore but does not exceed 5 crore

Source: MSME Development Act 2006, Ministry of the District Industry Centre (DIC) MSME, Government of India.

Based on 4th MSME census (2006-07) and sixth Economic Census (2013), the Annual Report (2016-17) by Union Ministry of MSME estimates that the number of MSMEs in India stands at 5.13 crore employing 11.1 crore people. Further, the 4th MSME census brought out that almost 90 percent of MSMEs are dependent on informal sources for funding. There is a total finance requirement of Rs. 32.5 lakh crore (\$650 billion) in the MSME sector. Of which the debt demand is of Rs 26 lakh crore (\$520 billion) and the equity demand of Rs. 6.5 lakh crore (\$130 billion).

Table: Aggregate Bank Credit Flow to MSMEs (outstanding credit in Rs Crore)

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Year (last reporting Friday)	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
March 2012	5,33,279.29	1,24,725.66	23,300.71	6,81,305.66
March 2013	6,43,525.02 (20.7%)	1,82,247.82 (46.1%)	43,251.30 (85.6%)	8,69,024.14 (27.6%)
March 2014 (provisional)	7,54,391.07 (17.2%)	2,46,025.76 (35.0%)	34,359.17 (-20.6%)	10,34,775.99 (19.1%)

Source: RBI

Note: figures in brackets indicate year on year % growth/decline.

The aggregate outstanding bank credit to MSMEs which was estimated to 10.34 lakh crore (Table), has been estimated to rise to Rs. 11 lakh crore (March 2016) in around 2 crore loan accounts. Contrast this to the estimated need of Rs. 26 lakh crore and number of MSMEs at 5 croreⁱ.

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced, and the levels of technology employed. While one end of the MSME spectrum contains highly innovative and high growth enterprises, more than 94 per cent of MSMEs are unregistered, with a large number established in the informal or unorganized sector. Micro, Small and Medium Enterprises (MSME) sector is characterised by low investment requirement, operational flexibility and location-wise mobility. Of the 26 million MSMEs, only 1.5 million are in the registered segment while remaining 24.5 million (94 percent) are in the unregistered segment. In spite of the sector's inherent potential to grow, there exist many challenges as well. With the increasing competition from neighbouring countries like China, Indonesia, Phillipines, and Thailand, it has become imperative for the sector to adopt robust strategies to become globally competitive. The government does realize these constraints and acknowledges the urgency to rejuvenate the sector for enhanced level of economic activity. Therefore, a host of initiatives like 'Make in India', 'Digital India', 'Start-Up India' and 'Skill India' have been taken up for the holistic growth of the sector. Measures are also underway to enhance the overall contribution of the manufacturing sector in India's GDP to 25 percent vis-a-vis current 16-17 percent and to create 100 million more jobs by 2022.

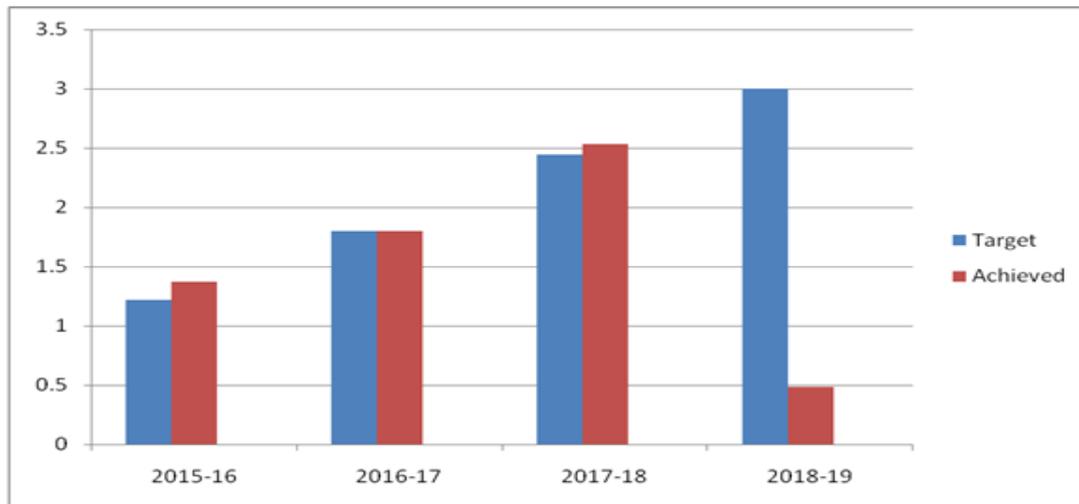
Micro, Small and Medium Enterprises inaugurated two Schemes of the Ministry namely, National Scheduled Caste/ Scheduled Tribe Hub and Zero Defect Zero Effect (ZeD) Scheme on 18th October, 2016. The ZeD Scheme envisages to develop an Ecosystem for Zero Defect Manufacturing in MSMEs by promoting adaptation of Quality tools and Energy Efficient manufacturing. Under this Scheme, MSMEs will have to compete to bag gold, silver and bronze quality certification in order to get contracts. Such schemes prove to be booster for enhancing competitiveness in MSMEs.

The introduction of Micro Unit Development Refinance Agency Limited (MUDRA) on 8th April, 2015 as a specialised window meant for targeting micro enterprises can be described as a major intervention for broad basing finance. Since the launch of the scheme, as on 06-07-2018, over 13.16 crore loans have been sanctioned for an amount of Rs. 6.19 lakh crore, leading to credit expansion at the bottom of the pyramid. MUDRA loans

have contributed to the evolution of a new ecosystem of extending loans to micro enterprises and the informal sector which goes beyond banking channels making formal, non-banking credit an equally important source of funding.

Loans Disbursed under MUDRA

(As per latest figures) 1st April 2015 - 06th July 2018, figures in lakh crores)



Source: Mudra Portal (www.mudra.org.in)

Source: Mudra Portal (www.mudra.org.in)

To enjoy the benefits provided under different government schemes, the micro, small and medium enterprises need to be registered under MSME. The concept of Udyog Aadhaar and ease of registration have been thus originated to ensure wider coverage of MSMEs to avail the benefits under various schemes of Central/State governments. Udyog Aadhaar Memorandum [UAM] is a one- page registration form for the micro, small and medium enterprises to get registered under MSME. It is replacement of the previous system [EM-1 & EM-2 Forms] where a lot of documents and details were needed. The new system of Udyog Aadhaar offers a single system of registration. The system is capable of delivering assured ease of doing business since 92 percent of the country's adult population is already registered under AADHAAR. This initiative of maintaining the data on MSMEs with the Ministry of MSME is likely to save cost in the long run since States/UTs would no longer be requiring maintaining the same.

Challenges and Opportunities

CHALLENGES:

There are both vertical and horizontal problems. On the one hand the aspirations of the people at the local level are a mix of co-operation and conflict. While some of the aspirations such as local infrastructure, are less prone to conflicts, in the case of most of the goods and services produced, there is a conflict of interests. Human welfare has three ingredients: a) economic; b) social; c) environmental. It is important that any such policy that

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may be articulated, should ensure an economic bottom-line that satisfies the majority of the local population. It is also important to ensure that this bottom-line does not conflict with some of the accepted social parameters. Besides, there need to be a focus on environment, in such a way that the initiatives of local economic development are sustainable, and are acceptable to a future generation.

Availability of infrastructure such as access to utilities, market, skilled manpower and latest technology etc. Is a must for any enterprise to run its operations successfully in the market. Due to the lack of capital, the Micro and Small Enterprises are generally not in a position to get access to latest tools and techniques, thereby compromising on the quality of their end product.

MSMEs particularly in the unorganised sector, show weaknesses in technology development and innovation (National Commission for Enterprises in the unorganised sector, 2009). This acts as a handicap in the emerging global market (Bala Subrahmanya, 2014).

The MSMEs are a heterogeneous sector comprising of Micro, Small and Medium enterprise segments with each having very distinct needs and different challenges. The Micro enterprises are largely ‘informal’ and ‘unorganised’. This segment faces financial inclusion challenges owing to its informal nature, lack of information needed by banks and documents.

OPPORTUNITIES:

MSME is one sector with huge potential to create not only self employment but also opportunities to create jobs further since many MSMEs like handlooms and handicrafts are labour intensive. National Manufacturing Policy estimates the potential of this sector to provide employment for 100 million people by 2022. Most of the developed world is moving towards a nation of ageing population, India is poised to be one of the youngest countries in the world by 2020. MSMEs serve as the best means to absorb the most valuable human resource.

MSME segment has the potential to emerge as a backbone for this economy and act as an engine for growth, given the right set of support and enabling framework.

By providing the global market access to MSMEs through bilateral trade agreements and setting off arrangements, MSMEs can contribute greatly to the country’s exports

Traditional and Heritage Industries like Khadi and Village industries could be promoted to a greater extent by incentivising and supporting the stakeholders that invests in the development, growth of such industries.

The sector has consistently maintained a growth rate of over 10 %. About 20 percent of the MSMEs are based out of rural areas, which indicate the deployment of significant rural workforce in the MSME sector and is an exhibit to the importance of these enterprises in promoting sustainable and inclusive development as well as generating large scale employment, especially in the rural areas.

The Indian MSME sector is the backbone of the national economic structure and has unremittingly acted as the bulwark for the Indian economy, providing resilience to ward off global economic shocks and adversities.

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Conclusion

Indian economy has very unique characteristics with formal-informal, rural-urban, agricultural-non-agricultural, skilled-unskilled components existing at the same time. The possibilities and potential for job creation and wealth formation are immense in the MSME sector. MSME sector with its vast spectrum of enterprises holds the key to achieving the Demographic Dividend. The Indian Economy has grown significantly between 1991 to 2018 at the rate of 8.7 percent a year from USD 275 Bn to USD 2.6 Tn. Such growth cannot be jobless growth. The success of a modern economy is directly linked to status of employment in the country. MSME sector possesses enough potential and possibilities to give Indian economy a big leap forward. With a little support from all stakeholders, these units can be on the way to becoming the pillars of growth.

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