

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

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Abstract

Building a robust industrial sector is constantly at the top of policymakers' and government officials' minds. Industries not only produce commodities for domestic consumption and export, but they also play a critical role in providing jobs for the country's young. While large industries such as iron and steel, automobiles, and electronic items are discussed when discussing GDP and economic growth, there is a Small Industrial Sector that plays an important role in both product manufacturing and job creation but is hidden from view of economists and policymakers. This is the sector of Micro, Small, and Medium Enterprises. The MSME industry in India employs about 11 crore people and accounts for roughly 17 percent of the country's GDP. This industry is widely acknowledged as a significant contributor to GDP and a growth booster. The sector serves as an auxiliary unit to big firms, assisting them in meeting their business requirements and demands, so contributing to the country's socio-economic development and inclusive growth. The current study attempts to focus on the enormous growth potential/development prospects available in India while also examining the performance of MSMEs and the obstacles they encounter.

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

Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a critical part in any country's economy. They contribute to the creation of jobs in the unskilled, semi-skilled, and skilled categories, all at a cheap capital cost because these units are labour intensive. They also support rural economies because many of these items are created locally. This industry manufactures anything from khadi kurtas for special occasions to cottage goods like honey and coir, as well as a variety of auxiliary items utilised in industrial manufacturing. Because the items are frequently one-of-a-kind, they have a high potential for export, generating money in foreign currency. They can stay afloat even during economic downturns thanks to cheap manufacturing costs and a cottage industry-like work atmosphere. From an Indian economic standpoint, the industry has a crucial role. This sector employs about 90% of India's workforce and accounts for nearly 90% of all industrial units. More than 8000 goods are produced in this industry, ranging from conventional to high-tech precise items. The development of the industry has become all the more crucial as India's economy is on the fulcrum of an ever-rising growth curve, with the country on track to become a \$5 trillion economy by 2025. Any business is compelled to compete on a global scale. MSMEs have the ability to respond to changing market conditions and competition in a flexible

manner. MSMEs are the engine of growth for the Indian economy, since they have disseminated entrepreneurial culture throughout the country. The MSME sector accounts for 45 percent of manufacturing production and 40 percent of the country's exports. According to the Working Group on Micro, Small and Medium Enterprises Growth for the 12th Five Year Plan (2012-17), the industry employs around 69 million people across the country through 26 million businesses. As a result, the government has prioritised developing new policies, programmes, and schemes to improve the whole MSME ecosystem.

Review of Literature

The Export-Import Bank of India (2012) has conducted a critical analysis of the current state of MSMEs in India as well as in the global environment. It has been suggested that MSMEs in India should have access to alternative capital sources such as angel funds/risk capital, and that existing laws should effectively address issues such as insolvencies/bankruptcies; the need to redefine ceiling limits to encourage MSMEs to move up the value chain; and the need for a cluster development approach to increase competitiveness.

Srinivas K T (2013) investigated the performance of micro, small, and medium firms (MSMEs) and their contribution to India's economic growth, concluding that MSMEs play an important part in the Indian economy's inclusive growth.

In their article, Christopher J. Green, Colin H. Kirkpatrick, and Victor Murinde (2006) looked at how financial sector development strategy may help reduce poverty, notably by encouraging the expansion of micro and small businesses (MSEs). The evolving importance of MSEs in the development process, as well as their access to informal and formal financing, especially the function of microfinance, are discussed in this study.

Since several successful models of the sustainable SME are gradually evolving, networks of SMEs will become essential for addressing the systemic problems underpinning the industrial ecology, enterprise resilience, and global supply chain sustainability, according to K,Vasanth, Majumdar M., and K. Krishna (2012).

In his study, Parthajeet Das (2017) examines the performance of the MSME sector and its contribution to India's overall economy, concluding that this sector has the potential and opportunities to push-button fast industrial growth in India.

Objectives of the study

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

Because this is a descriptive and analytical research, it relies heavily on secondary data. Secondary data was gathered from a variety of public sources, including government policies/programs, annual reports, journals, articles, manuals, research papers, and the MSME official government website.

Analysis

MSMEs (Micro, Small, and Medium Enterprises) constitute the backbone of most economies across the world. Everyone recognises their enormous contribution to society's socioeconomic, political, and technical

components. MSMEs in India are characterised by investment in plant and machinery (excluding land and buildings), rather than turnover or employment, as they are in most other nations.

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.

The Annual Report (2016-17) of the Union Ministry of MSME puts the number of MSMEs in India at 5.13 crore, employing 11.1 crore people, based on the 4th MSME census (2006-07) and the sixth Economic Census (2013). Furthermore, the 4th MSME census revealed that nearly 90% of MSMEs rely on unofficial funding sources. The MSME industry has a total funding demand of Rs. 32.5 lakh crore (\$650 billion). There is a debt demand of Rs 26 lakh crore (\$520 billion) and a demand for equity of Rs 6.5 lakh crore (\$130 billion).

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

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 total outstanding bank credit to MSMEs, which was estimated at Rs. 10.34 lakh crore in March 2016 (Table), is expected to climb to Rs. 11 lakh crore in March 2016. In comparison, the expected requirement is Rs. 26 lakh crore, while the number of MSMEs is estimated to be 5 crore.

In terms of firm size, the diversity of products and services produced, and the amount of technology utilised, India's MSME sector is very varied. While one end of the MSME spectrum comprises highly creative and high-growth businesses, more than 94 percent of MSMEs are unregistered, with many of them operating in the

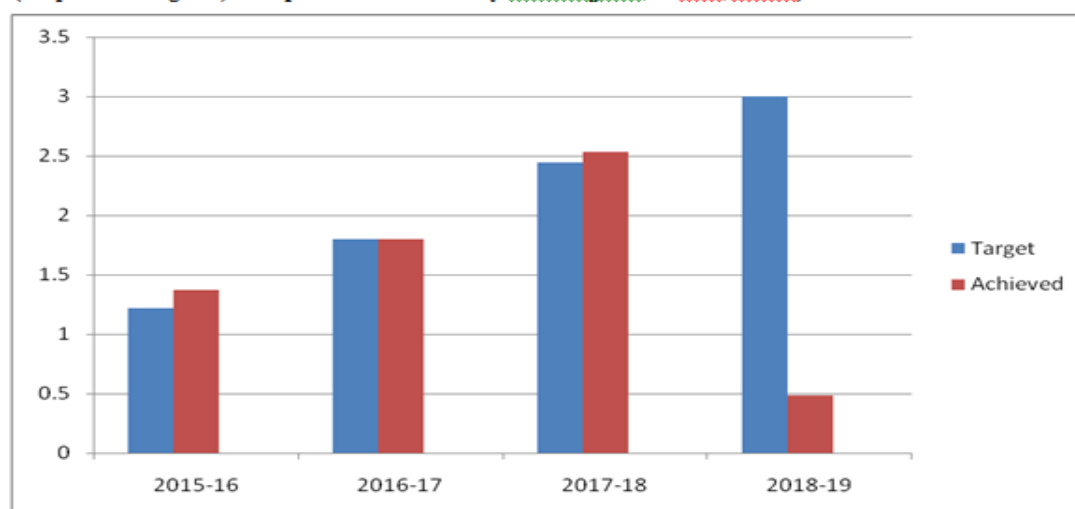
unorganised or informal sector. Low investment requirements, operational flexibility, and location-based mobility characterise the Micro, Small, and Medium Enterprises (MSME) sector. Only 1.5 million of the 26 million MSMEs are registered, while the rest 24.5 million (94 percent) are unregistered. Despite the sector's inherent potential for growth, it faces several hurdles. With increased competition from neighbouring nations such as China, Indonesia, the Philippines, and Thailand, it is more important than ever for the industry to have strong strategies in order to compete worldwide. The government is aware of these limits and recognises the need to revitalise the industry in order to boost economic activity. As a result, a slew of initiatives such as 'Make in India,' 'Digital India,' 'Start-Up India,' and 'Skill India' have been launched to help the industry flourish holistically. Measures are also being taken to increase the manufacturing sector's total contribution to India's GDP from 16-17 percent to 25 percent by 2022, and to generate 100 million additional jobs.

On October 18, 2016, the Ministry of Micro, Small and Medium Enterprises launched two schemes: the National Scheduled Caste/ Scheduled Tribe Hub and the Zero Defect Zero Effect (ZeD) Scheme. The ZeD Scheme aims to create a Zero Defect Production Ecosystem in MSMEs by encouraging the use of quality tools and energy-efficient manufacturing. MSMEs will compete for contracts under this scheme by obtaining gold, silver, or bronze quality certification. Such programmes have shown to be effective in boosting MSMEs' competitiveness.

The establishment of Micro Unit Development Refinance Agency Limited (MUDRA) as a specialised window for micro companies on April 8, 2015, may be considered as a substantial intervention for broad-based finance. As of 06-07-2018, over 13.16 crore loans worth Rs. 6.19 lakh crore had been sanctioned since the scheme's inception, resulting in credit expansion at the bottom of the pyramid. MUDRA loans have aided in the development of a new ecosystem for granting loans to micro businesses and the informal sector that extends beyond traditional banking channels, making formal, non-banking credit an equally vital source of finance.

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)

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Micro, small, and medium-sized businesses must be registered with MSME in order to benefit from various government initiatives. The notion of Udyog Aadhaar and simplicity of registration was born out of this need to guarantee that MSMEs may benefit from different Central/State government initiatives. The Udyog Aadhaar Memorandum [UAM] is a one-page registration form for micro, small, and medium-sized businesses to become MSME-registered. It replaces the old method [EM-1 & EM-2 Forms], which required a large number of papers and details. The new Udyog Aadhaar system offers a single registration system. Because 92 percent of the country's adult population is already registered through AADHAAR, the system is capable of guaranteeing guaranteed ease of doing business. This strategy of sharing MSMEs data with the Ministry of MSME is expected to save money in the long run because States/UTs will no longer be required to do so.

Challenges and Opportunities

CHALLENGES:

There are issues on both the vertical and horizontal levels. People's ambitions at the local level, on the one hand, are a combination of cooperation and conflict. While certain ambitions, such as local infrastructure, are less prone to conflicts, there is a conflict of interest in the majority of the commodities and services provided. There are three components to human welfare: Economic, social, and environmental factors all have a role. Any such policy that is formulated must provide an economic bottom-line that is acceptable to the majority of the local community. It's also crucial to make sure that this bottom line doesn't contradict any of society's recognised social norms. Furthermore, an emphasis on the environment is required so that local economic development plans are sustainable and acceptable to future generations.

Infrastructure, such as access to utilities, the market, qualified people, and cutting-edge technology, is essential for every business to succeed in the marketplace. Micro and Small Businesses are typically unable to have access to the most up-to-date technologies and procedures due to a lack of money, resulting in a reduction in the quality of their end output.

MSMEs, especially those in the unorganised sector, have disadvantages in terms of technological development and innovation (National Commission for Enterprises in the unorganised sector, 2009). In the emerging global market, this is a disadvantage (Bala Subrahmanya, 2014).

Micro, Small, and Medium Enterprises (MSMEs) are a diverse sector that includes Micro, Small, and Medium Enterprise sectors, each with its own set of demands and issues. The majority of micro businesses are 'informal' and 'unorganised.' Due to its informal character, lack of information required by banks, and lack of documentation, this group suffers financial inclusion issues.

OPPORTUNITIES:

Because many MSMEs, such as handlooms and handicrafts, need a lot of labour, they have a lot of potential to provide not only self-employment but also job prospects. According to the National Manufacturing Policy, this industry has the potential to employ 100 million people by 2022. While the majority of the industrialised world is transitioning to an ageing population, India is on track to become one of the world's youngest countries by 2020. MSMEs are the most efficient way of absorbing the most precious human resource.

Given the correct set of support and enabling environment, the MSME segment has the ability to emerge as a backbone for this economy and operate as a development engine.

MSMEs may considerably contribute to the country's exports by giving them with global market access through bilateral trade agreements and setting off arrangements.

Traditional and heritage industries, such as Khadi and Village industries, should be encouraged to a larger extent by incentivizing and supporting stakeholders who invest in their development and expansion.

The industry has continuously grown at a pace of more than 10%. About 20% of MSMEs are located in rural regions, indicating that the MSME sector employs a considerable rural population and demonstrating the relevance of these businesses in fostering sustainable and inclusive development as well as creating large-scale employment, particularly in rural areas.

The Indian MSME sector is the backbone of the country's economy, and it has consistently served as a bulwark for the Indian economy, giving resilience in the face of global economic shocks and adversity.

Conclusion

With formal-informal, rural-urban, agricultural-non-agricultural, skilled-unskilled, formal-informal, rural-urban, agricultural-non-agricultural, skilled-unskilled, formal-informal, rural-urban, agricultural-non-agricultural, skilled-unskilled, formal-informal In the MSME sector, the opportunities and potential for job generation and wealth creation are enormous. The MSME sector, with its diverse range of businesses, is critical to realising the Demographic Dividend. Between 1991 and 2018, the Indian economy grew at an annual pace of 8.7%, from USD 275 billion to USD 2.6 trillion. Such expansion cannot be jobless. The prosperity of a modern economy is inextricably connected to the country's employment situation. The MSME sector has considerable potential and opportunities to propel the Indian economy ahead. With a little help from all parties involved, these units may be on their way to becoming development pillars.

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