

MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) AS A GROWTH ENGINE

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Abstract

Many of us still think that it is large companies that still dominate. However it is actually those Small units which are the backbone of the National Economic Structure. MSME contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from Service activities as well as 33.4% of India's manufacturing output. (www.cii.in) SME has several advantages like it provides employment, it helps in making growth Inclusive, contributes to Balance Regional Development etc. However there is a major obstacle to the growth Of SMEs is its Lack of adequate Finance. This paper examines various other issues like poor infrastructure; Low Productivity etc and various initiatives taken up by Government of India. This paper also elaborates importance of SMEs for the growth and development of economy.

Key words: *Micro, Small and Medium Enterprises (MSME), Growth, Development, Backward linkages, Inclusive growth.*

1. Introduction

Many studies show direct relationship between growth of economy and growth of MSMEs that is why these are termed as Growth Engine because they derive the growth. It generates employment and acts as a feeder to large companies. As per MSMED act, 2006, these are categorized on the basis of Investment in P & M for Manufacturing /service industry.

Manufacturing Enterprises-The enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the industries

(Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use and is defined in terms of investment in Plant & Machinery.

The Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

(Ministry of Micro, small and Medium enterprises)

2. Literature Review

MSME comes under high priority sector as it plays a very important role in the upliftment of economy.

- Manimala (2008) has shown in his study that not much need has been felt for Education and Training. However both play a very important role for development of innovative individuals and for channeling their innovativeness into business startups.
- Ramarao(2012) has viewed in his paper that building functional competencies in MSEs is not the responsibility of firm alone. While awakening the firms to the need of the functional competencies for the growth, the facilitating institutions and government have to find ways to spread awareness so that MSME can become an Engine for Growth.
- Anuradha (2014) has cited in paper that globalization has increased the competitiveness of SMEs to some extent. Government has also taken up several schemes and policies. However there is a need to ensure proper coordination and implementation of such schemes.
- Sharma (2016) in their study have shown that the need of the hour is to inculcate modernization and Technology upgrading along with innovative methods in capacity building.
- Das(March, 2017) has shown in his paper that MSME has shown considerable strength to contribute to industrial growth in our economy. Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for them and further capable of meeting the upcoming challenges of a globally competitive order.

3. Contribution of MSME in Indian Economy

- **To generate large scale employment:**

- Since the enterprises under MSME requires low investment to start and our country India is labor abundant therefore MSME is better able to serve the purpose of providing employment to millions. It is employing more than 120 million people.

Top 10 states in terms of MSME establishments

Rank	State	Number of Establishments	% Share
1	West Bengal	5269814	11.62
2	Uttar Pradesh	5238568	11.55
3	Maharashtra	4545581	10.02
4	Tamil Nadu	3282197	7.24
5	Andhra Pradesh	2781291	6.13
6	Kerala	2364085	5.21
7	Rajasthan	2270936	5.01
8	Gujarat	2218464	4.89
9	Karnataka	2188860	4.83
10	Madhya Pradesh	1958550	4.32
	Total	32118346	70.80159
All India		45363786	100.00

MSME Annual Report 2016-17, (Ministry of Micro, Small and Medium Enterprises)

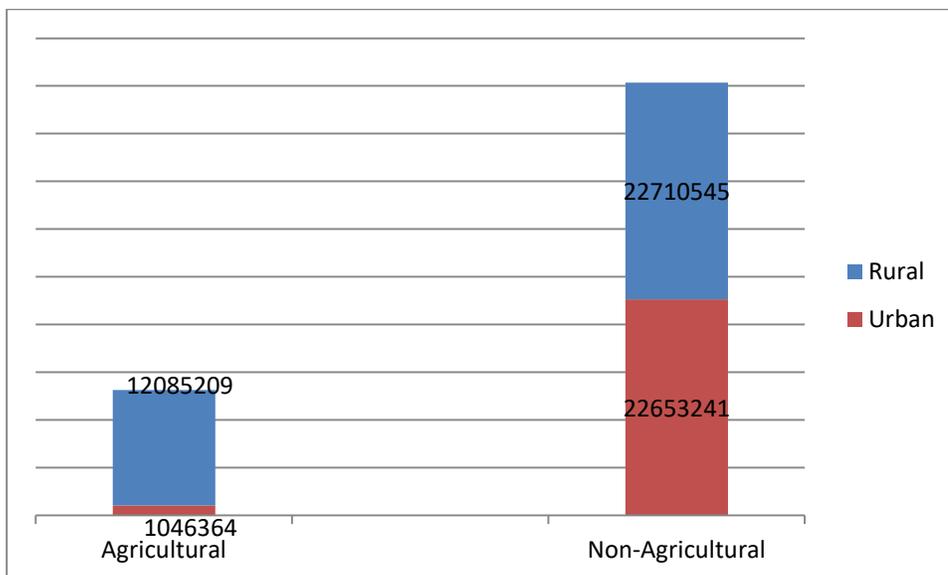
These top 10 states account for 70% of the total employment generated within MSME establishments.

- **Feeder to large scale industries:**
 - Small enterprises act as feeder to large enterprises. It provides raw material, vital components and backward linkages which fulfills the requirement of large industries.

- **Exports:** MSME contributes 40% to the exports from the nation. (MSMEs in India: The Road ahead, october 2017)

- **Making growth inclusive:**
 - Making growth Inclusive can be done only by involving SMEs to break various barriers of poverty. Government is taking various initiatives to make growth inclusive by providing trainings, by starting up various programmes like Skill India, Make in India etc. the following data shows that more MSMEs are set up in Rural areas which helps in making growth inclusive.

Distribution of agricultural and Non agricultural establishments in India



Source: MSME Annual Report 2016-17

- **Economic Self reliance:** MSME sector leads to Economic self reliance also. It leads to import substitution.

4. PROBLEMS AND CHALLENGES FACED BY MSME

- **Absence of adequate and timely banking finance**

One of the greatest challenges which constrain the growth of MSME in India is a problem of shortage of Finance which leads to stagnation in growth of MSMEs which in turn affects the growth of GDP, Export etc. Easy and timely availability of credit is a very important factor for the development and growth of enterprises.

- **Low production capacity:**

Non availability of finance also affects the production capacity. Majority of the MSMEs are self financed. Proper infusion of capital only can overcome this issue of poor production capacity.

- **Lack of basic infrastructure facilities**

Deficiencies in the infrastructure like poor power supply, transport connectivity, water supply etc acts as a hindrance in growth of MSMEs.

- **Lack of Access to New technology:**

Most of the industries today require advanced technology in their operations which can lead to enhancement of productivity and also quality. New technique can lead to transformation and competitive edge.

- **Lack of skilled human resource:**

Non availability of skilled workforce and better management at affordable cost is also a big challenge. Lack of expertise, lack of training, lack of education etc hinders the growth of enterprises.

5. INITIATIVES TAKEN UP BY GOVT.

❖ Digital India

It is an important initiative taken up Modi Govt. it focuses on digitalization i.e. cashless transactions to e commerce.

❖ Skill India

It is a campaign launched on 15 July 2015 which aimed to train over 40 Crore people in India in different skills by 2022. It is done under Ministry of Skill development and Entrepreneurship. Skill India focuses on developing the young talent by inculcating strong technical skills through education. It also stresses on use of science and technology for upgrading skills of young talent. (www.skilldevelopment.gov.in)

❖ Make in India:

It is launched on 25 September 2014, under Ministry of Finance, under the leadership of PM Narendra Modi. It is aimed at boosting manufacturing sector. It targets everything from foreign investment to better infrastructure. (www.makeinindia.com)

❖ Start up India:

It is launched on 16 January 2016 under Ministry of Commerce and Industry, Department of industrial policy and Promotion. It provides Bank finance to start ups to boost entrepreneurship and leads to job creation

❖ Pradhan Mantri Mudra Yojana:

It is open and available from all bank branches all over the country.

Following data has been taken up: (www.mudra.org.in)

	FY:2015-16	FY:2016-17	FY:2017-18
Loans Sanctioned	34880924	39701047	23940489
Amount Sanctioned (in Rs. Crores)	137440.27	180528.54	117569.17
Amount Disbursed (in Rs Crores)	132954.73	175312.13	112975.09

❖ **Public Procurement policy:**

As per this policy, Central ministry/Public sector Undertaking shall set an annual target of 20% procurement from MSME sector from 1 April 2015 onwards. A sub target of 4% out of 20% is made compulsory to be procured from MSME owned by SC/ST.

6. Suggestions

Although MSME sector has shown tremendous growth. However it still needs a push to utilize it to its full potential. Some suggestions are mentioned below for bringing desirable changes/improvement in MSME sector.

1. **Easy availability of credit**

Availability of credit from Banks and Other financial institutions within reasonable time should be ensured. Moreover finance should be made available at affordable and reduced rate of interest. Most establishments are self Financed. A total of 35.48 million (78.2%) non agricultural establishments were self financed. In rural India, 72.7% of the non agricultural establishments were financed whereas this figure was 83.7% in urban India. **This indicates the challenge of providing adequate financing to MSMEs in both Rural and Urban areas.** (Ministry of Micro, Small and Medium Enterprises)(6th economic Census)

2. **Providing infrastructure**

For MSME to contribute in a better manner, an efficient infrastructure like Power, Water, Roads, availability of Raw material etc should be done adequately. Benefits of Economies of scale, cluster development approach should be encouraged.

3. Special Economic Zones(SEZs), Export oriented Units(EOUs)

Various schemes like procurement by government, incentives to boost export sales, import subsidy, Duty entitlement Passbook scheme etc should be ensured.

4. Training and Development:

Initiatives should be done to ensure proper training and development for skill development. More training institutes should be set up for make entrepreneurs fit for doing a particular job.

5. Access to modern technology and Innovation:

Technology suitable for SMEs should be adopted. Latest techniques and tools should be adopted to ensure good quality. Various barriers to innovation like Govt policy, Skilled People etc should be removed.

6. Adhering to international standards:

Proper research and development should be done. Quality of goods should be at par with International standards. To be competitive and dynamic, we should keep on updating ourselves.

7. Creating Awareness and proper implementation

If all of the work is done and not communicated effectively, it leads to wastage of efforts done. Hence, government should make the MSMEs aware about various programmes and schemes initiated from time to time and also should ensure proper implementation of the schemes initiated.

8. There is a need to redefine ownership structures wherein companies, partnerships etc may be encouraged which enables greater infusion of capital and to get the benefits of Economies of Scale.

The bulk of MSMEs in India are owned as Private Proprietorships (87%). Among the rest, 0.91% is Private partnership, 0.42% are private companies, 0.51% are private self help groups, 0.22% are private cooperatives and 2.20% are Private nonprofit institutions. **This data shows that there is a need to redefine ownership structures**

wherein companies, partnerships etc may be encouraged which enables greater infusion of capital and to get the benefits of Economies of Scale. (Ministry of Micro, Small and Medium Enterprises)

7. Conclusion

The overall performance of SMEs is shown in terms of its absolute growth in Employment, Production, and Exports etc. It contributes tremendously to GDP. MSME has grown rapidly over years. MSMEs are very important sector in the industrial development and continue to play a crucial role in the Indian Economy. Govt. has taken various initiatives for upliftment of this sector like setting up of training institutes; NSIC provides various benefits like Raw material Assistance, Single point registration, Bill Discounting etc. Government has taken up various initiatives like Start up India, Skill India, make in India, Pradhan Mantri Mudra Yojana etc. However despite all this, we lack in no. of areas like availability of Credit, poor marketing, Lack of awareness, poor implementation of schemes, lack of infrastructure etc. If all these bottlenecks can be removed, MSME can contribute in far more efficient manner and also makes our economy competitive worldwide. Coming years will be year of Progressive and positive changes for Indian SME sector. Several new policies that are coming up or have been recently developed will show its impact on the growth of MSME sector and will continue to play an important role.

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