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A STUDY ON THE CONCEPTUAL BACKDROP OF MSMEs IN INDIA

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ABSTRACT:

The present paper intends to throw a light on the concept of Micro Small and Medium Enterprises (MSMEs) and its establishment and existence in the Indian economy, the Micro Small and Medium Enterprises, which comprises an extensive gamut of industries, occupies an imperative position. It has undoubtedly developed into one of the most vital sectors of our economy. The micro small and medium enterprises are not only providing immediate employment opportunities on a huge scale to the youth but also ensures an impartial distribution of income as well as an effective vehicle for mobilizing of resources, which would otherwise remain unutilized. In India the small-scale sector is playing a pivotal role in the socio-economic development of the country during the past five to six decades. Its contributions are significant to the overall growth in terms of Gross Domestic Product, employment generation and exports and so on. This paper also shows the performance of MSME sector and its direct impact on the growth of the overall economy.

Key Words: *Micro Small and Medium Enterprises, Indian economy, industries, small scale sector, mobilization of resources, gross domestic product, contribution.*

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INTRODUCTION:

From the earliest of time in traditional societies, informal savings and credit groups have operated for centuries across the developing world. The evolution history goes back to 1462 AD where an Italian monk created the first official pawn shop to counter usury services¹. In the 1700s Jonathan Swift initiated the Irish loan fund system, which provided small loans to poor farmers who had no securities. In the 1800s the concept of financial cooperative was developed by Friedrich Wilhelm in Germany. In 1895 Indonesian people's credit banks became the largest microfinance system in Indonesia, with close to 9000 branches. In the early twentieth century rural finance adaptation in Latin America aimed to modernise agriculture sector, mobilise idle savings, increase investment through credit, reduce oppressive feudal relations that were enforced through indebtedness. Between 1950 and 1970 governments used state-owned development finance institutions to channel concessional loans for agriculture credit, which did not prove successful due to various reasons.

The vital drivers of economic development, innovation and employment in India are the MSMEs which not only important for economy but also contributes in a very significant manner to the growth of Indian economy with a massive network of 63.38 million enterprises. The MSMEs contribute over 45 per cent to the manufacturing sector, with about 28 per cent of exports of the Gross Domestic Product (GDP) and creating employment in about 111 million people, which is standing next to agriculture in terms of volumes. The MSME sector in India is exceptionally heterogeneous in terms of size of the enterprises and variety of products and services, and levels of technology employed. However, the sector has the potential to grow at a faster pace. To provide impetus to the manufacturing sector, the recent National Manufacturing Policy envisaged raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022. In order to enable identification and facilitate development of MSMEs, Government of India had enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Prior to the enactment of this act, small industries encompassed tiny, cottage, traditional, and village enterprises and MSEs in India

¹ Murad A Bein and Israel Odian Ideweale, *Impact of Microfinance on poverty reduction and economic development in Nigeria*, sessa.org.za

were collectively termed as Small-Scale Industries (SSIs) under the Industrial Development and Regulation (IDR) Act, 1951. The MSMED Act, 2006 has provided the legal framework for identifying the concept of ‘enterprise’ which includes entities both in manufacturing and service sectors and has categorized the enterprises into three tiers viz., Micro, Small and Medium.

Micro, Small and Medium enterprises (MSMEs) are stimulators of domestic demand through the process of fresh employment creation, giving shape to ideas and innovation and fostering competition. Hence, they are the driving force behind strong and resilient national economies. In addition, by getting involved as part of the global supply chains, they have the potential to contribute to international trade. Thus, MSME development is an important component for strategies to promote inclusive economic growth in many economies. Societies the world over have different ways of addressing financial needs of the poor. Microfinancing is the delivery of financial services to poor and low income group. Microfinance can also be described as banking for under privileged². Microfinance means building financial systems that serve the poor³.

IMPORTANCE OF THE STUDY

In a country like India the MSMEs position can be critical to mention as the number of micro, small and medium enterprises have been increasing in a commendable manner in recent past, especially, post economic reforms of 1991. It is evident from the figures of all the nations across the world that the MSMEs were occupied a predominant position in their economies representing over 99 per cent of all most all the companies having substantial influence in obtaining the gross domestic product and the supply of employment opportunities. Though the MSME sector has huge potentialities, in India they could venture more satisfactorily as these are supposed to overcome and flourish more equitably. In this framework, there is need to study the MSMEs performance and future prospects in India.

² Conroy J D, *The challenges of Microfinancing in South East Asia*, 2003

³ Key Principles of Microfinance Explained by Microfinance Practitioners and Promoters, Ministry of Finance and Planning, Sri Lanka

OBJECTIVES OF THE STUDY

Following are the primary objectives of the foregone study:

- To study and understand the background of MSMEs existence.
- To analyze the performance of MSMEs in India
- To find the future prospects of MSMEs in India.

RESEARCH METHODOLOGY

This study is mostly focused on the published data as its source and the data for the study were collected from various Annual Reports of MSMEs and Economic Survey of India and published reports from Ministry of MSMEs, the Reserve Bank of India, Dailies, Magazines, Journals and other published sources.

MSMEs - A GLOBAL SCENARIO

The MSME sector is universally regarded as an engine of economic growth and for promoting equitable development. The sector also helps the economy by promoting a balanced development of industries across all regions of the nation. The major advantage of the sector is its employment potential at low capital cost. Small and Medium enterprises (SMEs) account for about 90 percent of businesses and more than 50 percent of employment worldwide. They are key engines of job creation and economic growth in developing countries. Globally, it is seen that there is a high correlation between SME share of GDP and development level of the country. Economic growth in developed countries such as Japan, Korea, Taiwan and many others, has been significantly generated by SME activities. The percentage contribution of SMEs to Gross Domestic Product (GDP)/total value added is 60.0% in China, 57.0% in Germany, 55.3% in Japan, and 50.0% in Korea. In China, SMEs contribute 60% of industrial output volume and 40% of the total taxes and profits realized. SMEs are important drivers of employment generation as well. In the EU, SMEs comprise approximately 99% of an estimated 19.3 million firms and employ 65 million people. SMEs account for between 55% and 80% of total employment in Western Europe, Japan and USA. There are approximately 23 million

SMEs in the US which employ more than 50% of the private workforce. In China, SMEs provide 75% of total urban employment.⁴

CLASSIFICATION OF MSMEs

MSME – Merged Criteria: Investment and Annual Turnover			
Sector/Enterprise Type	Micro Enterprise	Small Enterprise	Medium Enterprise
Manufacturing & Services Sector, Both	Investment less than Rs. 1 crore Turnover less than Rs. 5 crore	Investment less than Rs. 10 crore Turnover up to Rs. 50 crore	Investment less than Rs. 50 crore Turnover up to Rs. 250 crore

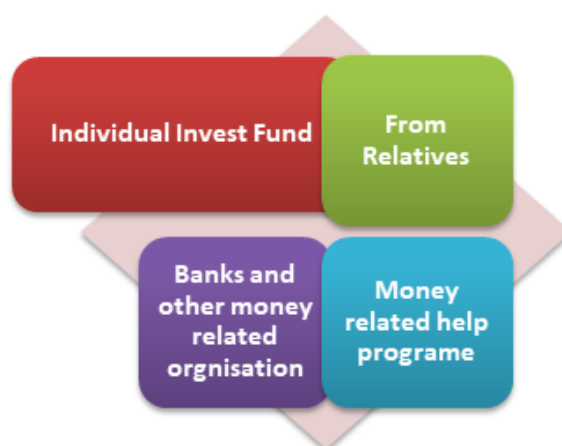
Source: *Aatm Nirbhar Bharat Abhiyan 2020* by Government of India.

Micro, small and medium enterprises are defined differently in different countries. The typical criteria used for classification include number of employees, sales turnover and balance sheet size. The World Bank classifies an enterprise as an MSME when it meets two of the following three criteria:

Enterprise Type / Enterprise Size	MICRO	SMALL	MEDIUM
Number of Employees	<10	<50	<300
Turnover	≤ USD 10,000 (≤ INR 6.5 lac)	≤ USD 3 million (≤ INR 19.5 crore)	≤ USD 15 million (≤ INR 97.5 crore)
Assets	≤ USD 10,000 (≤ INR 6.5 lac)	≤ USD 3 million (≤ INR 19.5 crore)	≤ USD 15 million (≤ INR 97.5 crore)

⁴ *The Role of SMEs in Employment Creation and Economic Growth in Selected Countries*
<http://www.ijern.com/journal/2014/December-2014/39>.

SOURCES OF FINANCE FOR MSMEs



Source: Role of Micro Finance Institutions in Financing MSME, Shailza Sharma, Corpbiz.io Updated: 30 Mar, 2020

GOVERNMENT SCHEMES AND OUTREACH

The process of evolution of an enterprise from micro to small and then to medium is a continuous entrepreneurial realm. This become reality to entrepreneurs only through the employment of resources and prevailing support which is created by the government. Ministry of MSMEs in India through its widespread schemes assist and ensure the promotion and continuous improvement of entrepreneurs' interests, particularly the small-scale businesses to attain the level playing field in the current market. Various other institutions also extends their assistance in improving and nourishing the skills, and also assists in market development strategies, technology implementation, flow of finance and procurement policies.

ROLE OF GOVERNMENT

For promoting, developing and enhancing the competitiveness of the MSMEs, the Central government has enacted an Act by name the MSMED Act in the year 2006. Under section 9, chapter v of the act the Government of India is empowered to issue guidelines for the enhancement of competitiveness through programs on; technology upgradation and skilling, marketing assistance, infrastructure facilities, cluster development, backward and forward linkages.

Over the years, Ministry of MSME has launched several schemes to address different needs of the MSME ecosystem. Although, Ministry of MSME is the nodal ministry for MSMEs in the country, yet on the ground several sectoral Ministries have a presence and contribute in this direction. For instance, Ministry of Textiles through its Development Commissioner (Handlooms) focuses on awareness creation, skill development, design and technology, market intelligence, etc., for the handloom sector. Ministry of Ayush ensures the development and propagation of AYUSH systems of medicine by assisting in creation of AYUSH clusters through Special Purpose Vehicles. Major schemes being run by these Ministries are provided in the Table - 2 below.

Table - 2: Major schemes of the Government	
Ministry	Scheme
Ministry of MSME	<ul style="list-style-type: none"> - A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE) - Scheme of Fund for Regeneration of Traditional Industries (SFURTI) - Credit Linked Capital Subsidy Technology Upgradation Scheme (CLCS-TUS) - Market Development Assistance to Khadi artisans (MDA) - Technology Development Centers are providing skilling on cutting edge technology to youths and MSME - Micro and Small Enterprise Cluster Development Programme (MSE-CDP) - National SCST Hub - Coir Udyami Yojana
Ministry of Food Processing Industries	<ul style="list-style-type: none"> - Marketing Research and Information Network - Development/Strengthening of Agricultural Marketing Infrastructure - Grading and Standardization - Agro processing Cluster - Mega Food Parks - Publicity and Marketing
Ministry of Commerce	<ul style="list-style-type: none"> - Startup India - Trade Infrastructure for Export Scheme - Modified Industrial Infrastructure Upgradation Scheme
Ministry of Textile	<ul style="list-style-type: none"> - Capacity Building in Textile Sector - Powerloom Cluster development - Integrated Textile Parks - Ambedkar Hastashilp Vikas Yojna

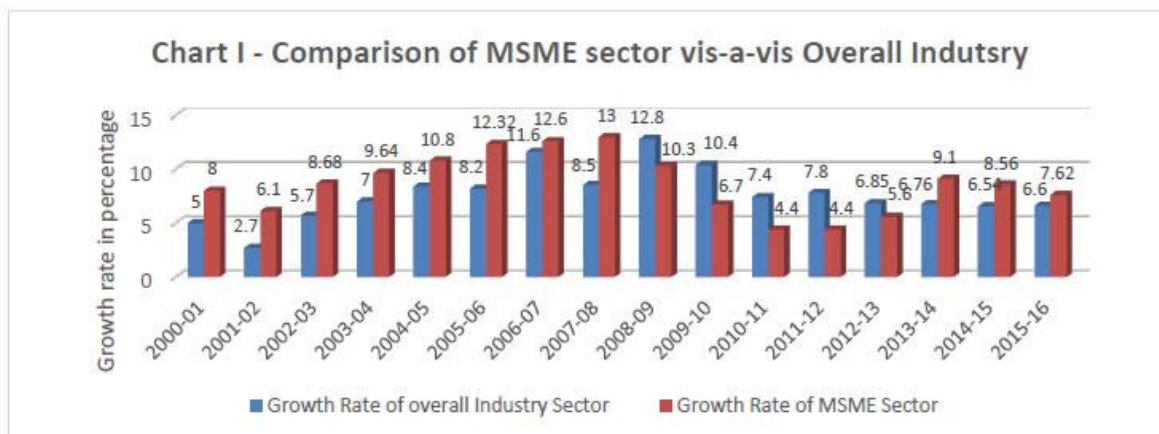
Table - 2: Major schemes of the Government	
Ministry	Scheme
Ministry of AYUSH	- Assistance to organisations (government / non-government non-profit) engaged in Ayush education / drug development and research / clinical research, etc. for upgradation to Centres of Excellence - Scheme for Development of Ayush Clusters
Ministry of Chemicals and Fertilizers, Department of Pharmaceuticals	- Cluster Development Programme for Pharma Sector (CDP-PS) - Pharmaceutical Promotion and Development Scheme
Ministry of Communication and Information Technology	- Technology Incubation and Development of Entrepreneurs - Software Technology Parks
Ministry of Skill Development and Entrepreneurship Schemes	- Udaan Training Programme for Unemployed Youth of J&K - National Skill Certification and Monetary Reward (STAR scheme) - Pradhan Mantri Kaushal Vikas Yojana

GROWTH OF MSMEs IN INDIA

India is currently one of the fastest growing economies of the world. MSME sector is likely to continue to play a significant role in the growth of the Indian economy. In the last ten years, MSME sector has shown impressive growth in terms of parameters like number of units, production, employment, and exports. Given the right set of support systems and enabling framework, this sector can contribute much more, enabling it to actualize its immense potentials.

MSMEs provides employment opportunities at comparatively lower cost of capital and creates ancillary units for large enterprises to support the system in growth. Chart I depicts the growth rate of MSME sector in comparison with the overall industrial sector during last sixteen years. The MSME sector has in many years registered a higher growth rate than the overall growth of industrial sector.

⁵ IFC Issue Brief / Small and Medium Enterprise



Source: Annual Reports of Ministry of MSME

Between the period 2000 and 2006, India witnessed industrial growth in the range of 5 to 8 per cent annually. Subsequently, it recorded double digit growth for next half a decade, before slowing down to around 6 per cent growth during the year 2015-2016. The MSME sector improved its growth performance between the year 2003 and 2009 and recorded a growth of more than 10 per cent during the period 2008-09. Introduction of MSMED Act, 2006 apparently played a role here. However, post 2008 global financial crisis, MSME growth fell sharply and lingered around 4 to 7%.

MSMEs CONTRIBUTIONS TO INDIAN ECONOMY

MSMEs have been contributing significantly to the expansion of entrepreneurial base through business innovations. MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. There are over 6000⁶ products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India.

As per the latest data available with Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation (MoSPI), the contribution of MSME Sector in the country's GVA (Gross Value Added) and GDP, at current prices for the last five years is given in Table – 1.

⁶ Annual Report of Ministry of MSME 2017-18

Table - 1: Contribution of MSMEs in Country's Economy at Current Price						
(in ₹ crore)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (%)
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77
Source: Annual Report Ministry of MSME 2017-18						

The contribution of the MSME sector to India's GDP remained stagnant around 30 per cent in recent years. GVA of MSMEs decelerated marginally during the same period.

DISCUSSION AND RECOMMENDATIONS FOR FUTURE PROSPECTS

The discussions and recommendations based on the above study are listed hereunder:

1. There is an immediate need for strengthening the mechanism amongst the Government Departments so that mandated procurement of 25 per cent can be achieved by the MSMEs. With regard to this the government has already launched GeM portal for connecting the MSMEs to government departments. As on May 29, 2019, there were 2,34,507 registered sellers on the portal, out of which 38,873 were MSEs comprising only 17% of the total registered sellers. This may be due to lack of awareness amongst the MSEs about GeM (Government e-Marketplace) portal.
2. The concerned ministry and government may consider making GeM as a full-fledged market place and permit MSME sellers on-boarded on the portal to procure raw-material as well.
3. It is found from the study that the major reason for migration of startups to other countries is because of better enabling environment such as tax concessions, well developed infrastructure, ease of doing business, exit policy, etc. Hence, it recommended that the financial incentives and excellent infrastructure facilities must be deployed to retain successful Indian startups and to lure the best talent from across the world to start businesses in India.

4. The research reveals that the MSMEs contribute significantly to the employment creation process of the private sector. In emerging markets, 4 out of 5 new positions in the formal sector were created by MSMEs, which is about 90 percent of total employment.
5. It is found that the informal enterprises offer an avenue for interventions to formalize MSMEs and to provide access to social protection for those that they employ. Given the scale of informal employment, particularly in developing economies, support in formalizing MSMEs would be a step to create employment that lift people out of poverty
6. It is found that the MSMEs can also recruit, train, and employ local community members, including those living in poverty, and integrate them into the MSME value chain.
7. It is recommended that the MSMEs be incentivized to conduct nutrition education and awareness programmes to improve household dietary habits. These initiatives can promote consumption of food from small-scale producers at the same time.
8. It is found and revealed from the study that the MSMEs are bridging the healthcare gap through better-quality healthcare services and the provision of a wider range of basic laboratory and imaging services.
9. Further, MSMEs are progressively taking the leading role as innovators of low-cost, high-volume delivery models, driven by increased competition for the same customer base. However, MSMEs are facing several challenges, such as the lack of strict regulatory standards and the lack of resources to hire professionals with skills to manage the operational inefficiencies.
10. It is recommended that the MSMEs, through work-based learning programmes (e.g. apprenticeship, career education and internship), could become informal educational service providers, and share technical and competency skills required by employers.
11. Based on the findings from the International Finance Corporation (IFC)'s Enterprise Finance Gap Assessment Database, it is estimated that globally there are roughly 9.34 million formal women-owned MSMEs in over 140 assessed countries, which is approximately one third of all formal MSMEs.

12. The findings showed that the women owned and women-led enterprises face many challenges, most critical being limited access to finance. Other barriers include lack of business skills and access to networks. Strengthening capacity of women-owned/led MSMEs can be a source of economic empowerment for women.

CONCLUSION

MSMEs have been playing an important role in Indian economy in terms of employment generation and growth. In spite of having huge potentialities, the small scale industries in India could not progress satisfactorily as these industries are suffering from various weaknesses. If remedial measures are taken in proper time and spirit the MSMEs will be able to utilize huge development potential available in the country and the MSMEs will prove itself as one of the most dynamic and vibrant sector of the economy of the country. The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives. The role of the M/o MSME and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario.

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