

MSMES' ROLE IN ECONOMIC GROWTH: A STUDY ON INDIA'S PERSPECTIVE

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ABSTRACT

The Micro, Small, and Medium-Sized Enterprises (MSMEs) industry in India has emerged as a thriving and dynamic industry for the economy. It is acknowledged as serving as a catalyst for growth and development. MSMEs are essential in generating a significant amount of employment at a low capital cost compared to major businesses, aiding in the formation of enterprises in economically underdeveloped regions and reducing regional inequality, and guaranteeing a justifiable distribution of the nation's income and wealth. In comparison to the total industrial sector, the MSME sector has consistently recorded progress that is superior. This study looked at the MSME sector's role in the growth of the country as well as the areas where it needs to be strengthened to continue playing a role in India's development. The study discovered that MSMEs might be a blessing and a source of hope for the Indian economy in the near future. The MSMEs are contributing to society's uniform growth and can be a powerful tool for utilizing India's natural resources. If MSMEs are established in impoverished areas, they are particularly beneficial in eliminating regional disparities. MSMEs create more jobs per unit than other industries. Their individuality needs to be fostered openly and explicitly if this contribution is to be sustained.

Keywords: MSMEs Make in India Program, C, Challenges and Policy Interventions.

Introduction

The Micro, Small, and Medium-Sized Enterprises (MSMEs) industry in India has emerged as a thriving and dynamic industry for the economy. It is acknowledged as serving as a catalyst for growth and development. In comparison to large industries, MSMEs are playing a crucial role in generating a significant amount of employment at a low cost of capital, assisting in the establishment of industries in economically depressed regions, reducing regional inequalities, and ensuring a justifiable distribution of the nation's income and wealth.

MSMEs are supporting a variety of industries by expanding the prospects for vertical integration in rural and distant locations. As a result, this sector is significantly advancing the nation's finances. Beyond the agricultural industry, MSME offers a wealth of alternatives for wage and contract work. The promotion of non-agricultural livelihood at the lowest possible cost, impartial regional development, equality in the society and between the sexes, environmentally sustainable continuous growth, and apart from all of that, providing protection against deflation, which MSME has always demonstrated, are just a few ways in which MSME is associated with a superior rate of economic growth and builds inclusive and tenable population.

A defense against deflation, something that MSME has always had

With great fanfare, the "Make-in-India" initiative was introduced to breathe fresh life into the manufacturing industry. It is an effort to close the critical gap between the Indian and Chinese markets. The "Make in India" concept requires the active involvement of all stakeholders from across the country. The most crucial aspect in ensuring the success of the very deliberate initiative of the Indian Government—which is ensured at the grassroots level by MSMEs—is skill development for delivering input support as factor services.

In this context, the paper looked at the role played by MSMEs in the development of the country as well as the areas that needed to be strengthened for the sector to continue playing a role in India's development.

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MSME - The Backbone of the Indian Economy

MSME has a significant part to play in India's equitable development. According to the annual reports produced by the Ministry of MSME, the industry manufactures more than 6000 high-quality items and contributes to 45% of the nation's total exports, which suggests there are many prospects for expansion and sector-specific support. There are 1.6 million registered MSMEs in India, according to the research, but the majority of them are unregistered. The survey states that very small-scale organizations make up 94.9 percent of MSMEs, with small-size firms making up the remaining 4.9 percent.

According to the distribution of registered businesses, urban areas have almost 8.57 lakh active businesses, or 54.77% of the total, while rural areas have 7.07 lakh (45.23%) active businesses. As a result, it is making a commendable contribution to the equitable development of the Indian economy. According to statistics produced based on activity for registered enterprises, it is noted that manufacturing units contribute 67.1 percent, followed by service units at 16.8 percent and the service side at 32.9 percent. According to statistics for unregistered businesses, services account for 69.80% of revenue, while manufacturing accounts for 30.20 percent of all business activity. The allocation of 6000 MSME units into their respective sectors is shown below.

Figure 1: Leading Industries in MSME Sector



Source: Annual Report Fy 2014-15, Ministry Of Micro, Small And Medium Enterprises, Govt. of India.

Employment of Opportunities through MSMEs

MSMEs are giving young people good work possibilities, according to numerous economic surveys that have been conducted. Strong backward and forward ties created by the MSME sector's positive growth are encouraging greater investment in this area. According to the Ministry of MSMEs' annual report, there were close to 362 lakh enterprises in the 2006–07 fiscal year that provided close to 805 lakh jobs, and that number increased to 510.57 lakh enterprises with 1,171.323 laksh employees in the 2014–2015 fiscal year, representing a 45.5% increase in employment and a 41% increase in the number of working enterprises. This growth demonstrates unequivocally how important MSMEs are to the process of producing jobs.

Growth and Performance of MSMEs

The creation of new MSMEs is one of the key signs of the MSME sector's successful growth in an economy since it demonstrates both a favorable environment for the establishment and expansion of MSMEs as well as the high spirits of the country's businesspeople.

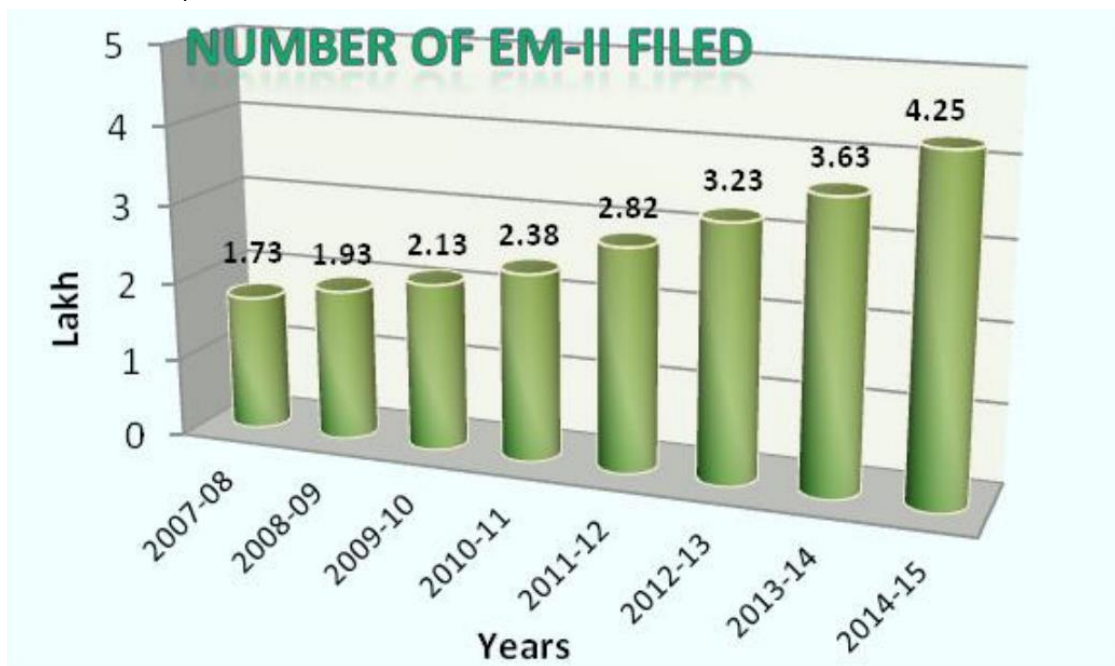
Small Scale Industries were utilized to register with District Industries Centers prior to the passage of the MSMED Act in 2006. (DICs). Before beginning an enterprise, MSMEs had to submit an Entrepreneurs Memorandum (Part-I) filing to DICs. After starting the business, they submitted an Entrepreneurs Memorandum (Part II). Since 2015, Udyog Aadhaar Memorandum has taken the position

of EM-II (UAM) Information about the development and performance of MSMEs was gathered from the EM-IIs available with DICs. The number of EM-IIs filed by MSMEs has consistently increased. During the 2007–2008 fiscal year, 1.73 lakh EM-IIs with DICs were submitted nationwide. The following years, 2008–09, 2009–10, 2010–11, 2011–12, 2012–13, 2013–14, & 2014–15, saw an increase to 1.93, 2.13, 2.38, 2.82, 3.23, 3.63, and 4.25 lakh, respectively. It is clear that the increase has continued through 2014–15.

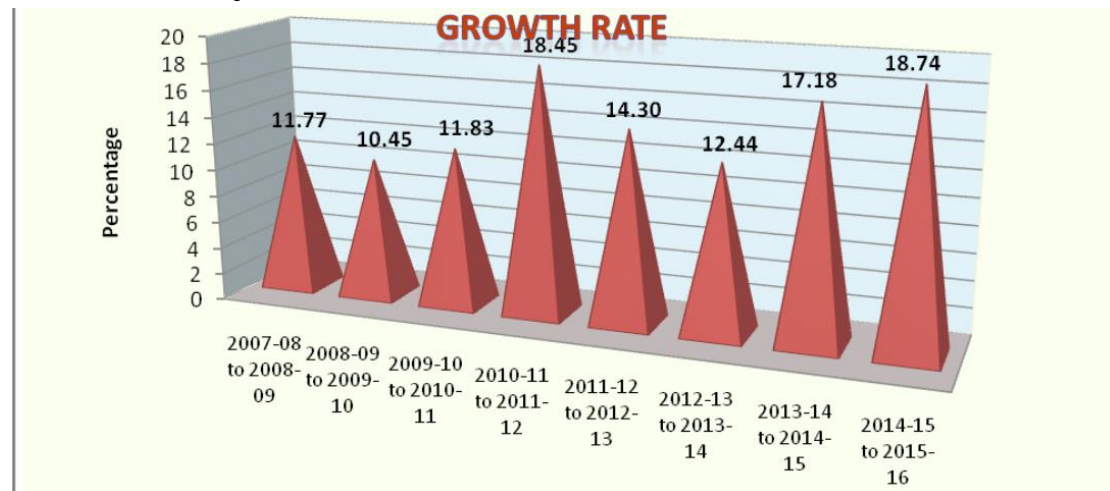
MSME has consistently grown at a pace of about 11% each year through 2010–11. The 2011–12 school year saw the biggest growth (18.45%). In 2014–15, it increased to 17%.

But current data from April to September 2015 showed incredible growth of 18.74%.

Between 2007 and 2015, a total of 21,96,902 EM-II documents were filed. On the other hand, 22,40,463 UAM filings have It should be highlighted that the MSME sector has grown steadily and healthily since the end of EM-III, even though the economy has been affected by a number of financial crises and other problems.



Number of EM-II filled during 2007-08 to 2014-15



Rate of Growth in filing EM-II during 2007-08 and 2014-15

Major Contributor to GDP

The MSME sector is now a significant factor in the GDP of the country. The GDP fell to 4.8 percent in the fourth quarter of 2012–13 (January to March 2013). Because the MSME sector is a necessary component of the GDP, policymakers must pay attention to it. According to the statistics, MSME's GDP contribution is steadily rising. The percentage contribution of MSMEs to the country's GDP through time is shown in the table below. From 35.13 percent in 2006–07 to 37.54 percent in 2012–13, it has been able to increase. In 2006–2007, the MSME manufacturing output contributed 42.02 percent of the nation's total manufacturing output to the GDP, while in 2012–2013, it contributed 7.04 percent of the GDP and 37.33% of the overall output of manufacturing.

Year	Gross Value of Output of MSME Manufacturing Sector (Rs. In Crore)	Share of MSME Sector in Total GDP (%)			Share of MSME Manufacturing output in total output (%)
		Manufacturing Sector MSME	Service Sector MSME	Total	
2006-07	1198818	7.73	27.4	35.13	42.02
2007-08	1322777	7.81	27.6	35.41	41.98
2008-09	1375589	7.52	28.6	36.12	40.79
2009-10	1488352	7.45	28.6	36.05	39.63
2010-11	1653622	7.39	29.3	36.69	38.5
2011-12	1788584	7.27	30.7	37.97	37.47
2012-13	1809976	7.04	30.5	37.54	37.33

Source: Annual Report Fy 2015-16, Ministry of Micro, Small And Medium Enterprises, Govt. of India.

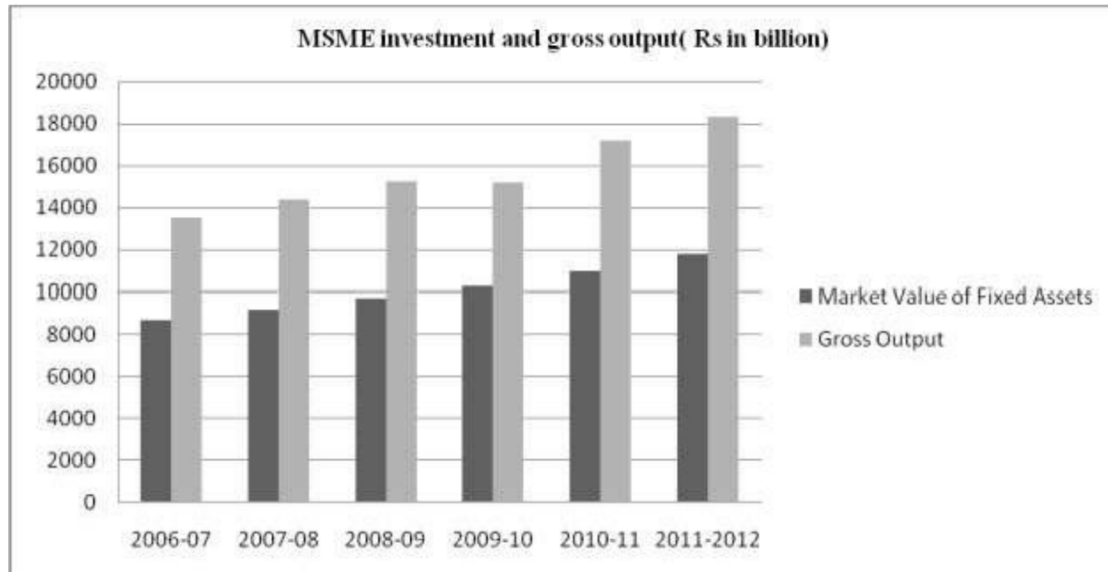
Contribution to Industrial Production and Export

Currently, MSMEs operate in a wide range of industries, including manufacturing, trade, and services, and as a result, they have been a terrifying part of the nation's industrial production for a significant amount of time. According to R. Karthikeyan and C. Jothi Kumar (2014), the Make in India initiative can quickly accomplish its goal if the state and federal governments give this industry a bit more attention.

Over the course of the year, MSME attained a level of optimal domestic resource use and produced high-quality goods and services. The industry makes significant contributions to the nation's industrial development.

More than 90% of India's industrial units are in this sector, and it has significantly increased over the past few years. MSME impacted a number of economic concerns, including industry development, job generation, entrepreneurship, economic empowerment, etc. Equitable and inclusive growth was made feasible through MSME. Rural residents own almost 50% of MSMEs, which raises people's standards of living.

According to the Ministry of Micro, Small, and Medium Enterprises' publication of the MSME Annual Report for the Financial Year 2011–12, MSME provides 37% of the overall manufacturing output. MSMEs are seeing a significant rise in investment flows. In MSMEs, fixed investments are always rising. The contribution of MSME to overall industrial production is depicted in the graph below. It is obvious that MSMEs account for almost 50% of total industrial production. The overall production of the MSME sector is trending upward. According to the graph, fixed asset investment went from Rs 8685.44 billion in 2006–2007 to Rs 11769.39 billion in 2011–2012, while total production increased from Rs 13513.83 billion in 2006–2007 to Rs 18343.32 million in 2011–12.

MSME Investment and Gross Output (Rs. In Billions)

Source: Annual Report Fy 2012-13, Ministry of Micro, Small And Medium Enterprises, Govt. of India.

Scope of Service Opportunities through MSMEs

By generating service opportunities for rural elites, the general populace, and corporations alike, MSMEs have been contributing significantly to the growth of the service sector for some time. On the one hand, the economy may expand as a result of the spike in rural demand, but this low-income section will remain such due to unsustainable employment security schemes. The encouragement offered by loan waivers, NREGS-led infrastructure construction projects, and other linked rural agriculture projects are paltry resources to ensure the livelihood of rural communities. There is an urgent need to provide services for fundamental agricultural tasks like cultivation, composting, preparation, and input availability.

Farming practices marketing campaigns, and trade activities. When a crop fails, other service options that have evolved from related agricultural activities can be used as backup plans and should be implemented as an additional farm business. The service sector might become one of the major drivers of the country's economy if these are accomplished.

Areas to be Focused to Strengthen the MSMEs Sector in India

To enhance the MSMEs sector and ensure that it can continue to contribute to the prosperity of the country, state and federal governments must concentrate on a select few sectors.

Technology and Environment

The efficiency of the entire production chain is necessary for the economy to remain competitive since it determines how well all the resources are used throughout production and how effectively they are sold. This means that the production process must be economical and should satisfy consumer demands for quality.

The most recent technologies can be used to achieve this improvement. Despite having a sizable pool of technical talent and a well-established intellectual infrastructure, India is still trailing behind when it comes to creating and implementing innovative technologies in the MSME sector. In order to facilitate and transmit information to many consumers, the MSME sector currently needs an efficient information system.

Access to Markets

MSMEs must react quickly to the changing marketing needs and innovations if they are to compete with both internal and external major corporations.

Better market access facilities must be made available right once in order to maintain and boost this sector's contribution to output, job creation, and exports. According to a recent study, SMBs have a huge chance to maximize their network presence and skills in order to achieve their targeted financial

goals. Additionally, it was noted that many Indian MSMEs, particularly small enterprises, still rely on conventional media like phone books and newspapers to reach their target audience because local markets account for a sizable portion of their overall earnings.

Infrastructural Bottlenecks

MSMEs must react quickly to the changing marketing needs and innovations if they are to compete with both internal and external major corporations.

One of the main issues is the lack of infrastructure facilities, which can seriously harm an enterprise's value chain process, including the production, consumption, and distribution of the products. MSMEs are also already dealing with issues like a lack of funding, technological obsolescence, and inadequate marketing facilities. MSMEs collaborating and sharing infrastructure costs that are otherwise unaffordable for individual or single MSMEs could benefit from economies of scale, synergy, and collective bargaining by working together, particularly in the case of common infrastructure, common facilities, raw material procurement, which could be a solution to this problem, marketing, and delivery of finished items, testing facilities, standard tooling/machining, R&D, etc.

Mentoring and Advocacy

Entrepreneurs who step forward to start businesses frequently have a product or service idea, a desire to work hard but little funding, and an understanding of markets, governmental or banking procedures, cash flow, or human resource management. Here, mentoring and hand-holding support are essential.

This can sometimes come from a variety of sources, including a friend, a relative, an NGO, or a parent organization.

This is disrupted and unable to satisfy the country's extensive needs. Governments must take steps to institutionalize this through outreach and extension programs. To serve as a guide, trained human resources are made available for this purpose all the way down to the district levels.

These experts offer advice on how to start a business, make it profitable, work with financiers, comprehend markets, and deal with the effects of globalization and technological breakthroughs. The Small Industry Development Organization is now actively promoting small businesses through facilitation, advocacy, and handholding. This includes financial incentives, protection from unfair competition, and legislative assistance that has been placed in place.

Access to Credit

The lifeblood of the company is credit. Investors are reluctant to invest in sole proprietorships, partnerships, or unlisted corporations due to the high-risk perception surrounding small enterprises. When accessible, institutional finance demands collateral, which increases the unit owner's vulnerability to foreclosure. Credit guarantee funds, which let lending institutions advance loans including shared guarantees from a group of people, have not become very prominent. When a sporadic occurrence like a sizable order, consignment rejection, or excessive payment delay happens, the unit's finances are put under a great deal of strain.

Small businesses naturally prefer to use their own resources first before turning to friends and family for loans or looking for external financing. In this regard, the Micro Units Development and Refinance Agency Bank (MUDRA Bank) is a brand-new organization established by the Central Government for the development of micro-units and refinancing of MFIs in order to promote entrepreneurship in the nation and to fund the non-corporate small business sector. MUDRA Bank would require two different types of products, including refinancing for micro units with credit requirements ranging from Rs. 50 thousand to Rs. 10 lakhs and on-landing support from Micro Finance Institutions (MFI). Under the Pradhan Mantri MUDRA Yojana program, MUDRA will refinance to microbusiness.

Globalization

Through the WTO agreement, trade and commerce have become more globalised, changing the corporate climate. It is now vital to inform SMEs about these changes and get them ready for the future. Numerous actions have been made in this direction in India. 28 awareness seminars were held all throughout the nation in addition to the establishment of a WTO unit in the nodal ministry. Workshops on bar coding and intellectual property rights have also been held. The other actions done in this regard include monitoring imports in certain industries where SMEs have a large presence and initiating anti-dumping action when dumping has been observed.

Procedures

Government and bank procedures, as well as their inspections, are a significant barrier to the expansion of Micro and Small Units. More than 60 federal, state, and local regulations govern small enterprises in a variety of sectors, including environmental protection, labor, municipal bylaws, taxation, and power. These place an undue strain on tiny units because they must keep more than 100 registers and forms. An army of inspectors visits units to implement these laws, which causes harassment, delays, obstructions, and increases in production costs.

Numerous tiny businesses are one-man shows and are unable to adhere to the letter of the law. To completely unleash the inventive brilliance of Indian businesses, rules, and procedures must be simplified.

Research has been started by the central government to create a single statute specifically for small firms. This law should greatly ease the problem.

Exit Mechanism

For MSMEs to protect the interests of the workforce, a good exit strategy is essential. Because there are tiny business units where bank loans have turned poor and non-performing and because industries have life cycles just like products do. The Reserve Bank of India has taken the initial steps in this direction by allowing one-time payment of debt as of March 31, 1997. The outcomes have been positive.

Strategy Intervention for Revitalization and Growth of MSMEs

The WTO is bringing about major changes in the economic landscape. The elimination of QRs has boosted competition from imports. Asian nations like China or Taiwan in the import market and Sri Lanka, Bangladesh, or Nepal in the export market are competitors for Indian businesses, especially MSMEs. Promotion, not protection, is the answer to the problems of survival and growth, according to Indian government policy. As a result, while commodities are still being reserved for exclusive production, the emphasis must now be on building competencies. This suggests examining industry challenges from all angles. The following strategic interventions have been started as a result of this:

Making Credit More Accessible

Introduction of limited partnership and factoring possibilities
Subsidies in finance costs for technology upgrades
Industry-specific technology upgrade programs encouraging self-declarations in lieu of inspections for various regulations; supporting the development of and access to international markets for export; extending the reach of infrastructure programs.

Interventions should remove obstacles to future growth. They need to facilitate a smooth transition from small to medium to large. In order to create a new vision for the SSI sector, the Indian government is using a flexible strategy and a committed staff.

The government's role in encouraging business increasingly includes other facets like advocating for small businesses before international trade organizations or other agencies, or mediating disputes.

Conclusion

MSMEs have an important role in the economy, which takes both concrete and abstract forms. MSMEs create jobs that ultimately lead to independence. In a nation like India, the only solution to the rupee's depreciation is self-reliance. MSMEs might thus be a blessing and a source of optimism for the Indian economy in the foreseeable future. The MSMEs are contributing to society's uniform growth and can be a powerful tool for utilizing India's natural resources. If MSMEs are established in impoverished areas, they are particularly beneficial in eliminating regional disparities. MSMEs create more jobs per unit than other industries. Their individuality needs to be fostered openly and explicitly if this contribution is to be sustained.

There shouldn't be any disagreements over the relative importance of SME policies in pursuing the socioeconomic objectives of increased employment and social justice as well as personal "aspirations".

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