

AN ANALYSIS OF THE WORLD BANK ROLE IN GROWTH OF INDIAN MICRO SMALL AND MEDIUM ENTERPRISES (MSME's)

Darshanpreet Kaur*

ABSTRACT

Micro, Small and Medium Enterprises (MSME's) are the important sector for the country's growth and have contributed immensely to the country's economy. The growth of Indian MSMEs in the country's economy is elevated with the favourable contribution from the World Bank. These Enterprises form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. According to the survey report, there are around 42.50 million MSMEs in India. The MSMEs sector has been acknowledging an engine growth of all over the world. A spark for socio-economic transformation of the country the sector is critical in meeting the national objectives of generating employment, reducing poverty, and discouraging rural urban migration. Several factors constrain the growth and competitiveness of Indian MSMEs. The lack of access to sufficient and timely financing is especially critical in growth of Indian MSMEs. The Indian authorities have taken several steps to retain MSME Financing and Developments, and the World Bank in 2015 has provided support through an MSME Financing and Development Project. Today in considering the development of MSMEs sector, role played by the World bank in cater financing assistance is quite remarkable. The research paper also analysis the present scenario role of the World Bank in overall development of MSMEs across the nation and their aim to estimate possible opportunities and threats in the sector of MSMEs for raising funds through World Bank group which should be review by policy makers for better results.

Keywords: MSME's, Economic Growth, Socio-Economic Transformation, Rural Urban Migration.

Introduction

The Micro small and medium enterprises sector plays vital role in the growth of India's economy. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. In Indian economy, Entrepreneurs are making remarkable progress for rapid growth of nation through various industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, Agro and service sectors. This sector also helps in reducing regional imbalances and assuring more equitable distribution of national income and wealth.

MSMEs are liable for the majority of business in Indian and are important contributors to job creation and nation's economic development. The economy has been struggling to rejuvenate itself and achieve healthy growth rate with help of MSMEs. Its expansion directly impact on country's growth rate. The number of MSMEs in India increased by 18.5% in 2019 to 2020. The sector has been already gained remarkable due to its contribution about 30% to Gross Domestic Product (GDP) of the Country. The sector also contributed exceptionally with respect to entrepreneurship development mainly in semi – urban and rural areas of India. The MSMEs segment is the backbone of the Indian economy and it will be \$5 trillion economy by 2025, ensuring the growth of this sector is predominant. India's MSMEs sector has been at the centre of attention for a long time now. There are more than 63 million MSMEs in which employ around 110 million people and form a key pillar of the Indian economy. World Bank helps to

* Assistant Professor, P.M.N. College, Rajpura, Punjab, India.

stretch the financial inclusion and growth of MSMEs sector in recent years. In 2004 A World Bank loan of \$120 million to SIDBI – the apex bank for MSMEs in India the lead to turbo growth & key vehicle to promote employment, value chain developments, economic and social inclusion and resilience in the face of delicacy and antipathy.

The MSMEs enterprises are further categorized based on investment in equipment and annual turnover as per Ministry of Micro, Small and Medium Enterprises, India (2020):

| Criteria | Manufacturing | | Service | |
|----------|------------------------------------|--|------------------------------------|--|
| | Turnover | Investment | Turnover | Investment |
| MICRO | Rs. 5 crore (US\$ 0.6 million) | Less than Rs. 25 lakh (US\$ 0.03 million) | Rs. 5 crore (US\$ 0.6 million) | Less than Rs. 10 lakh (US\$ 0.01 million) |
| SMALL | Rs. 50 crore (US\$ 6.8 million) | More than Rs. 25 lakh (US\$ 0.03 million) but less than Rs. 5 crore (US\$ 0.6 million) | Rs. 50 crore (US\$ 6.8 million) | More than Rs. 10 lakh (US\$ 0.01 million) but less than Rs. 2 crore (US\$ 0.3 million) |
| MEDIUM | Rs. 250 crore (US\$ 34 million) | More than Rs. 5 crore (US\$ 0.6 million), but less than Rs. 10 crore (US\$ 1.4 million) | Rs. 250 crore (US\$ 34 million) | More than Rs. 2 crore (US\$ 0.3 million) but does not exceed Rs. 5 crore (US\$ 0.6 million) |

New classification of MSMEs effective from the July 1, 2020 by the Indian Government to uplift the MSMEs enterprises and expected to bring out many benefits that will aid to grow MSMEs in size. In previous criteria it is only based on investment in plant and machinery but in new criteria turnover has been added. It has also been decided that turnover of exports will not be counted in this criteria for any category of MSMEs units whether micro, small and medium this will also help small entrepreneurs for doing business. The change in criteria of classifying the MSMEs is set to offer major solace to the exporters. The sector is defined by Regulators and Financial Institutions in the context of finance across the world by using this framework such as employee strength, annual sales, value of fixed assets and loan size.

Distribution of Enterprises in MSME Sector

| Sector | Micro | Small | Medium | Total | Share(%) |
|--------|--------|-------|--------|--------|----------|
| Rural | 324.09 | 0.78 | 0.01 | 324.88 | 51 |
| Urban | 306.43 | 2.53 | 0.04 | 309.00 | 49 |
| All | 630.52 | 3.31 | 0.05 | 633.88 | 100 |

Distribution of Employment by Type of Enterprises in Rural and Urban Area

| Sector | Micro | Small | Medium | Total | Share(%) |
|--------|---------|-------|--------|---------|----------|
| Rural | 489.30 | 7.88 | 0.60 | 497.78 | 45 |
| Urban | 586.88 | 24.06 | 1.16 | 612.10 | 55100 |
| All | 1076.19 | 31.95 | 1.75 | 1109.89 | 100 |

There are 95% industrial units and approx. 50% exports are engaged in MSMEs sector. This sector delivers employment opportunities to almost 110 million people and making it the largest source of employment after the agriculture sector.

Major Objectives of the Study

The major objectives of the study are as follows;

- To analyse the role of World Bank in development of Indian MSMEs
- To examine the flow of finance in MSMEs sector
- To analyse recent trends of Indian MSMEs
- To know the economic contribution of MSMEs sector
- To know the various constraints that affect MSMEs growth.

Research Methodology Adopted in the Study

The data required for the study has been collected from the secondary sources. The data collection includes (1) Annual Reports of MSME's (2) World bank press releases (3) Ministry of MSMEs releases (4) International finance Corporation (IFC) Reports (5) Various websites relevant to topics.

Role of World Bank

Indian MSMEs play a major role in overall economic development. Considering the role of World Bank in providing financial assistance to Indian MSMEs Government have also taken several initiatives to address MSMEs financing and developments. The financing constraints can be ascribe to the combination of factors that includes legal / regulatory framework, absence of credit appraisal , infrastructural facilities, high cost of technology up gradation, financial exclusion, Lack of managerial competence and lack of reliable credit information that intensely challenge the growth and development of Indian MSMEs. The World Bank has come forward to provide support through an MSMEs Financing and Development Project.

In 2004, World Bank has granted \$120 million loan to the SIDBI – apex bank for MSMEs in India support nationwide initiative to revitalise the MSME sector. Lender under this project has reached 927 MSMEs spread across 10 Indian states. Loan has been given to Indian MSMEs on average been for five years.

In 2015, World Bank has approved \$550 million project to minimise the constraints in small businesses of India. It also helps the Indian MSME to support their innovative financial products frameworks and tools for MSME financing

In 2017, world bank has disbursed project amount of \$ 265.38 million for facilitating innovation financing, exploring new product lines for Indian MSMEs. It also helps in providing technical assistance to assist institutional capacity, product innovation and development. It rejuvenate in exploring new product lines for India MSMEs, strengthen and scaling up local innovations and direction for rapidly changing needs of dynamic country.

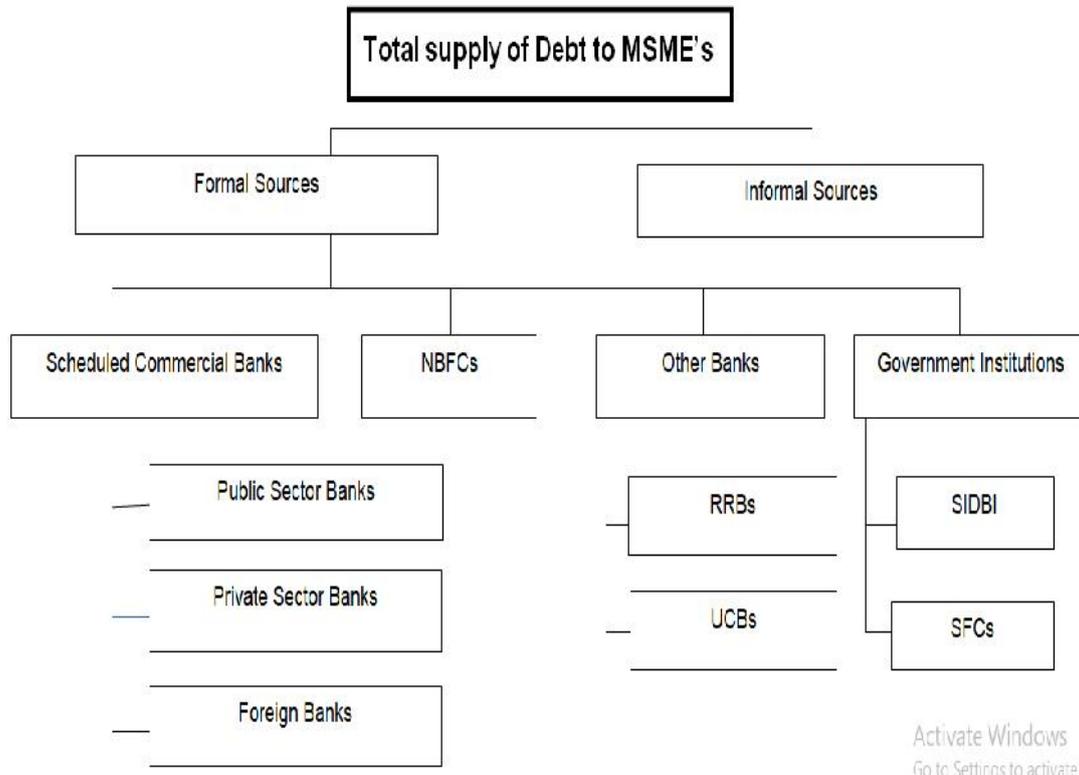
In 2020 , The World Bank and the Government of India signed the project amount of \$ 750 million agreement for the MSME emergency Response Program to support increased flow of finance into the hands of MSMEs which are highly impacted by the COVID -19 crises. This program helps to meet immediate liquidity and credit needs of MSMEs.

In 2021 , The \$500 Million loan from the World Bank, programme named “Raising and Accelerating Micro, Small and Medium Enterprise (MSME) Performance ” (RAMP) , to strengthen the Indian MSME , sector , which has been highly Impacted due to COVID-19. It has a maturity of 18.5 years including a 5.5 year grace period. This programme will improves the financial productivity and financial viability of the MSME sector.

In recent year, the Indian authorities have also taken several steps to address MSMEs sector financing and developments , Having supported from the world largest World Bank this will immensely help to Indian MSME sector . The lack of adequate and timely financial access is especially very critical without their support borrowing becomes expensive and profit margins are reduced . World Bank group's work is to improve MSMEs access to finance and find more innovative solutions to unlock sources of capital. They provide financial sector assessments to determine areas of improvement , support of initiatives such as set up credit guarantee schemes , introducing innovative electronic MEMEs financing for example e-invoicing , e – factoring etc , create successful models and policy frameworks.

Flow of Finance to the MSMEs Sector

Finance is considered as the lifeblood of Indian MSMEs sector because Finance is the master key that provides access to all the sources. All finance demand by the MSME sector is met by either formal sources or informal sources. Informal financial sector non – institutional sources include family , friends and family business while institutional sources includes chit funds and money lender . For start-ups entrepreneurs are managing finance through informal sources as they used to struggle for seed financing. MSMEs require timely and adequate financial assistance through loans basically in the early and growth stages. Debt is the main source of financial transactions with non-institutional informal sources because these transactions are not bound by any contractual agreement and the repayment terms are mutually agreed.



Formal sector serves less debt credit as compared to informal source of the total MSME debt financing. The formal financial sector comprises of scheduled commercial banks, NBFCs, Government Institutions (SIDBI, SFCs) and other Banks (RRBs , UCBs).

Recent Trends in Indian MSME's

- **Utilization of Latest Techniques for Marketing**

Long established time and space boundaries have been reduced with the rapid fire growth of technology and vacuity of the internet to a large part of the population. Businesses are gradually learning to enhance their online presence by creating an optimised website, CRM, whatsapp for business, listing in the business to business and laboriously responding to client queries.

- **Adaptable to doing Business with MSMEs**

MSMEs in India account for 11cr. Jobs and 29% of the country's GDP. In 2021, restoring MSMEs profitable instigation will be integral to giving the real GDP growth rate a big drive. MSMEs will need to explore deals and distribution openings and find new ways for business expansion. MSMEs will also have to re-evaluate request penetration and client outreach. Most importantly they will need access to easy and low cost credit. The most dependable way for MSMEs to achieve an end to end exponential growth will be to embrace the technology enablement of their force chain functions. Business to Business e-commerce platforms with their technological capabilities with companion MSMEs towards these pretensions with dexterity at scale in 2021.

- **Standardizing Technology Facilitation for MSMEs**

The primitive reason for stubby technology perforation is the high total cost of ownership (TCO). The condition will rotate significantly in 2021 as a consequence of the government's ₹8000cr. BharatNET and FTTT programs that will give low cost broadband connectivity to gram panchayats across the country. MSMEs will be suitable to connect business to business platforms more. Business to business e-commerce models make themselves on mesh computing operations that are scalable and therefore offer a high degree of operating and fiscal influence. Similar mesh computing from Business to Business e-commerce platforms that drive multiple deals and automate different force chain functions from deals distribution, analytics – grounded client outreach and force chain finance will catch traction with MSMEs.

- **Accredit Market Infiltrate, Client Outreach**

Offline modes of request infiltrate and client outreach are not outgrowth-grounded and therefore increase pitfalls for MSMEs. With business to business e-commerce, MSMEs can reach a 70% broader client base for domestic and global trade. The governments have invested ₹27,300cr. In creating the single window e-logistics request for MSMEs provides an excellent occasion for business to business e-commerce and MSMEs platforms to unite. Business to business e-commerce platforms will enable MSMEs to access deep into remote locales across the country where OEM (original equipment manufacturer) customers have faced difficulties with the procurement of industrial supplies.

- **Enabling MSMEs to be Self-Sustaining**

MSMEs units need to make their force chain briskly, further cost-effective, translucent and safer snappily. The intent of business to business e-commerce platforms in 2021 will be to integrate MSMEs in Indian manufacturing with global value chains and secure a advanced proportion of gross can enable this through lesser original capacity application of MSMEs and unleashing new openings for domestic and global trade.

- **Experimenting with Divergent Approaches to Enhance Collusion**

Indian entrepreneurs are famed for being creative with spare coffers. Still, the Indian eco-system is presently characterized by largely fractured sweats and low situations of collaboration between MSMEs, Exploration, technology and the separate service providers. Although Indian enterprise are frequently organised into clusters, these clusters generally correspond of homogenous enterprises with no inter-linkages to being original equipment manufacturers. They have generally been established for advocacy purposes or to pierce public sector finances allocated to support collaborative action.

How do MSMEs Contribute to the Indian Economy??

MSMEs make a pivotal beneficence to Indian GDP. MSMEs contribute further than 29% to the GDP and are responsible for 50% of the country's exports. They are also explicable for one-third of Indian's manufacturing affair. MSMEs employ further than 11cr. people and the focus is to grow this number to 15cr. in the coming years

MSMEs are the growth accelerators of the Indian frugality, contributing about 30% of the country's gross domestic product (GDP). In terms of exports, they are a vital part of the supply chain and put up about 40% of the overall exports. MSMEs are plays a supreme role in employment generation, as they have employed about 110 million people of the country. Impressively half of the MSMEs are operate in rural sector. To insure that MSMEs continue to contribute the Indian economy towards profitable growth, the government of India has from time to time blazoned abundant schemes to support the development of this sector. Recently, in view of the industrial privation caused by covid 19, the government has put out few schemes under 'Aatmanirbhar Bharat' i.e. Self-reliant India initiative. Consequently, the criterion for classifying MSME has also been revised. Under the revised criterion, the merge factors of 'investment in plant and machinery' and 'Turnover' are needed to be considered to determine whether a business should be classified as micro, small and medium enterprise. In discrepancy, before the bracket of an MSME unit was grounded only its investment in plant and machinery and also to know about on which enterprise they are depending on whether manufacturing sector or service sector.

Various Constraints that affect MSMEs Growth

The contribution of MSMEs in any economy cannot be overlooked but MSMEs face several constraints and barriers. However the MSME sector is growing faster than the industrial sector as a whole. MSMEs experience multiple constraints that hang to the entire sector's growth line. One of the major hurdles facing MSMEs today is timely access finance and some more of the crucial hindrances that MSMEs faces are:

- Lack of managerial competence
- Lack of access to modern technology
- Insufficient market linkages
- Lack of access to global markets
- Poor infrastructure facilities, including water, electricity roads etc.
- High cost of credit

- Unavailability of raw material and other outputs
- Lack of distribution of marketing channels.
- Unpredictable market
- High research and development cost
- Strict statutory requirements

Conclusion

The growth of Indian MSMEs in the country's economy is elevated with the favourable contribution from the World Bank. These Enterprises form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. MSMEs play a vital role in our economy, The World Bank have enforced several programs to ameliorate the inflow of credit to the Indian MSME sector. Evidently from MSME face several other problems similar as problem of selling their products. Once the product is ready, it becomes imperative for the owner to vend it into the market. MSMEs are unfit to make use of proper interposers for the marketing of their products. This sector has proven the necessary in the growth of the nation, influence exports, helps creating huge employment opportunities for the skilled, fresh graduates and the employed.

References

1. <https://www.worldbank.org/en/topic/sme/finance>
2. <https://www.worldbank.org/en/news/press-release/2020/07/06/world-bank-and-government-of-india-sign-750-million-agreement-for-emergency-response-program-for-micro-small-and-medium-enterprises>
3. <https://openknowledge.worldbank.org/bitstream/handle/10986/26553/114457-WP-IN-MSME-Report-03-01-2013-PUBLIC.pdf?sequence=1&isAllowed=y>
4. <https://documents1.worldbank.org/curated/en/759261548828982149/pdf/134150-WP-IN-Financing-India-s-MSMEs-Estimation-of-Debt-Requirement-of-MSMEs-PUBLIC.pdf>
5. <https://www.ibef.org/industry/msme.aspx>
6. <https://www.financialexpress.com/industry/sme/cafesme/msme-eodb-msmes-in-2021-six-key-trends-to-watch-out-in-b2b-e-commerce-to-jumpstart-small-business-recovery/2150932/>
7. http://www.ijims.com/uploads/6150f569fe7aee24c329zppd_560.pdf.

