Micro, Small And Medium Enterprises And The Development Of Indian Economy

Abstract
MSMEs represent the foundation of a developing economy like India and have been one of the major verticals of economic development strategy. India is the country where poverty and unemployment are the main problems since the independence but MSMEs solve these problems by providing immediate large scale employment and proves to be a 2nd largest employer after agricultural sector, thus, increases its importance in an economy where wealth is created by using knowledge along with the conventional factors of production, to be specific, land, labor and capital, hence, called “knowledge based economy”. This research paper attempts to chart out the importance of MSMEs in economic development of India. This sector has emerged as a highly vibrant and dynamic sector of the economy over the last 50 years. It not only plays an important role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, resulting thereby, minimizing regional imbalances, assuring more equitable distribution of national income and wealth. These are also complementary to large industries as auxiliary units and contribute remarkably to the socio-economic development of the country.

1. Introduction
MSMEs have been regarded as the instrument of economic growth and development all over the world. Today, MSMEs constituting nearly about 90% of the total enterprises in most of the economies which creates marvelous employment opportunities and is accounting major share of exports & industrial production. In India, MSMEs are generally referred to Micro, Small and Medium Enterprises. Multinational companies have played a momentous role in the emergence of Indian MSMEs as world leaders in specific products. This sector plays an important role in the growth of GDP in the economy as it creates employment opportunities at minor capital cost. This
sector is the backbone of industrial development. MSMEs always represented the model of economic development, which emphasized high contribution to domestic production, significant export earnings, low investment requirements, employment generation, high contribution to foreign exchange earning of the nation with low import-intensive operations.

The contribution of this sector has been remarkable in the industrial development of the country. It has a share of 40% in the industrial production and 35% of the total manufactured exports of the country are directly accounted for by this sector. In terms of employment generation, this sector is next only to agriculture employing approximately 14 million people. Overall, this sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification. These are less capital intensive and suit the Indian economic environment with scarce resources and large population base. In addition, it is highly and has a scope for labour intensive for building upon the traditional skill and knowledge. MSMEs remained high on the agenda of all political parties, intelligentsia and policy makers since independence as a legacy of Gandhian philosophy.

2. Objectives
   I. To study the role and importance of MSMEs in the development of Indian economy.
   II. To explore the opportunities and challenges to MSMEs.

3. Concept
Micro, small and medium enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The present ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

![Figure 1: Categorization of MSE](image)

The primary responsibility of promotion and development of MSMEs rests with the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives. The role of the MSME and its organizations 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.

The schemes/programmes undertaken by the Ministry and its organizations seek to facilitate/provide:
i. Adequate flow of credit from financial institutions/banks
ii. Support for technology upgradation and modernization
iii. Integrated infrastructural facilities
iv. Modern testing facilities and quality certification
v. Access to modern management practices
vi. Entrepreneurship development and skill upgradation through appropriate training facilities
vii. Support for product development, design intervention and packaging
viii. Welfare of artisans and workers
ix. Assistance for better access to domestic and export markets and
tax. Cluster wise measures to promote capacity building and empowerment of the units and their collectives.

4. Contribution To The Economy
MSMEs, the backbone of the Indian economy are increasing massively in India. They contribute in GDP and GNP of India. It acts as a breeding ground for entrepreneurs to grow from small to big. India has nearly 12 million MSMEs, which is almost 50% of industrial output and 42% of India’s total export. The reasons are as follows:-
i. Investment of less capital
ii. High contribution to domestic products
iii. Extensive promotion and support by Government
iv. Significant export earnings
v. Operational flexibility
vi. Man power training, machinery procurement
vii. Capacity to develop appropriate indigenous technology
viii. Technology-oriented industries

<table>
<thead>
<tr>
<th>Year</th>
<th>Enterprises(in lakh)</th>
<th>Employment (in lakh)</th>
<th>Fixed Assets (in crore)</th>
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<tbody>
<tr>
<td>2012-13</td>
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<td>1061.52</td>
<td>1269338.02</td>
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<tr>
<td>2011-12</td>
<td>447.66</td>
<td>1011.8</td>
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<tr>
<td>2010-11</td>
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<td>965.15</td>
<td>1105934.09</td>
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<tr>
<td>2009-10</td>
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<td>1038546.08</td>
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<td>2008-09</td>
<td>393.7</td>
<td>880.84</td>
<td>977114.72</td>
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</tbody>
</table>

Source-MSME Annual report 2013-14

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross value of output (in crore)</th>
<th>Total Output Manufacturing</th>
<th>GDP</th>
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<tbody>
<tr>
<td>2011-12</td>
<td>1790804.67</td>
<td>37.52</td>
<td>7.28</td>
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<tr>
<td>2010-11</td>
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<td>2007-08</td>
<td>1322960.41</td>
<td>41.98</td>
<td>7.81</td>
</tr>
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</table>

Source-MSME Annual report 2013-14
There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME sector besides providing wide range of services.

5. Opportunities In MSMEs

i. Less capital intensive

ii. Most important employment generating sector. It provides 50% of private sector employment

iii. Effective tool for promotion of balanced regional development

iv. It is extensively promoted and supported by the Government

v. Finance and subsidies are provided by the government

vi. Produced goods are purchased by the Government

vii. 40% exports in India are through MSME channel

viii. Procurement of machinery and raw material

ix. Globalization has offered new opportunities for the MSMEs

x. Trade fares and exhibitions played a vital role in the economic growth of the countries.

6. Problems And Issues Of MSMEs In India

There are some evidences that the MSMEs contributions prominently to the Indian economy through creating employment opportunities, generating production volumes and exports, introducing innovations and development of entrepreneur skills. However, the MSMEs face many problems in India. Some of the main problems of MSMEs are:

i. Unduly delayed payments by large industry players

ii. Absence of adequate and timely affordable bank credit

iii. Lack of infrastructure inputs and banking support

iv. Limited capital and knowledge

v. Low managerial capability

vi. Low return on investment

vii. Lack of suitable technology

viii. Low production and productivity

ix. Ineffective marketing strategies

x. Non-Identification of new markets

xi. Hurdles in expansions, modernization and innovations,

xii. Inadequate power supply, water supply, transportation facilities

xiii. Lack of adequate warehousing facilities

xiv. Lack of information timely

xv. Lack of skilled labor and training

7. Support From The Government

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of services sector in the definition of Micro, Small and Medium Enterprises, apart from extending the scope to Medium Enterprises.

Keeping in view the important role played by MSMEs in Economic Development and its vital contribution in the Indian Economy and Employment. The Govt. and RBI are proactively supporting the growth of MSMEs in every possible manner. Some of the Govt. measures include:
I. The Ministry of MSMEs have been implementing schemes of survey, study and policy research with a view to collect data on various aspects of MSMEs engaged in manufacturing and services. The purpose of this survey is to design appropriate strategies, measures to assist and enable these enterprises in facing the challenges to make use of opportunities with a view to enhancing their efficiency and competitiveness.

II. MSMED Act, 2006 has been enacted to facilitate the promotion and development of these enterprises. Under this Act, three types of enterprises i.e. Micro, Small and Medium have been defined for the very first time.

III. Credit is one of the crucial aspects for the promotion of MSMEs. Thus, various schemes have been undertaken to provide sufficient credit to these enterprises such as “Credit Linked Capital Subsidy Scheme” (CLCSS) which was launched to facilitate technology improvement in MSMEs including khadi, tiny and village units. Moreover finance to this sector by commercial banks has been classified under priority sector lending of the banks.

Table 3: Allocated Funds

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocated Fund by Government(in Crore)</th>
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<tbody>
<tr>
<td>2014-15</td>
<td>3327</td>
</tr>
<tr>
<td>2013-14</td>
<td>2977</td>
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<td>2012-13</td>
<td>2835</td>
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<tr>
<td>2011-12</td>
<td>2700</td>
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</table>

The Prime Minister of India Mr. Narendra Modi launched “Make in India” initiative in September 2014 that aims at identifying domestic companies having leadership in innovative and creativity for turning them into global champions. A separate Ministry formed to monitor the MSME under Narendra Modi government will soon launch scheme to attract funds and boost the sagging industry.

Similarly a very encouraging move by Chief Minister of Delhi Mr. Arvind Kejriwal, in February 2015, for eliminating the mandate of consent-to-establish (CTE) certificate from the Delhi Pollution Control Committee (DPCC) and trade license from the Municipal Corporation of Delhi (MCD) to obtain an acknowledgment letter under the MSMED Act, 2006. Although the waiver will only be applicable for projects that fall under two categories ORANGE and GREEN as defined by India’s environment ministry. These categories comprise businesses that apparently have little or no impact on environment. “Orange” category industries include hotels and restaurants, automobile servicing and repairs stations, flour mills and stone crushers, while “green” establishments include printing presses, medical and surgical instrument manufacturers, apparel making, among others.

8. Suggestions

This sector has to redesign their strategies and innovate themselves to become successful enterprises, some major aspects need to be kept in mind. The Indian market, populated with more than a billion people, offers really vast opportunities for different industries. It is very obvious that MSME sector will lure more and more private /individual participants from both domestic and foreign domain. This way the MSME will prosper highly
This study has attempted to elicit few perceptual changes that have taken place since Gandhian Era. On the grounds of the above study the following pointers came up as suggestions:

- **Segmentation:** Banks should conduct sector specific studies and the problem of different industries should be noted. This way, bank will be able to connect with the specific problems of the particular industry and devise strategy accordingly.

- **Assistance in Marketing:** There should be an adequate finance for the MSMEs so that these enterprises can focus more on brand building and should be given chance to advertise their products and participate in trade fairs. Adequate attention should be given to cash flow. Entrepreneurs of this sector look into cash flow matters more than the profit for the success of the enterprises.

- **Becoming More Technologically Advanced:** MSMEs are required to continuously update and use latest technology into their production process, management function and marketing to reduce cost, increase productivity & efficiency. This sector needs innovation to create new business and sense the changes that have already occurred in the business, technology and demographics.

- **Skill Development and Trained Manpower:** There should be an allotment of more funds to set up resource development and growth centers. Skilled manpower is required for the small enterprises which will enhance MSMEs competitiveness. As business passes through stiff competition the entrepreneurs should evaluate the business demands and continuously strive to cater them. For successful enterprises one should learn from their mistakes and make sure not to repeat again.

- **Need for Infrastructure Development:** The MSMEs need to have an adequate infrastructural set up which includes development of MSME clusters near highways, rail corridors, proper channels of telecommunication, adequate supply of power and other supporting facilities.

- **Approach to Equity Capital:** The ability of MSMEs should be enhanced by expanding their reach to access equity market. For this purpose, regulatory and fiscal barriers should be removed. Stock Exchanges have also set up separate exchange for listing and trading shares of MSMEs, making it easier for them to raise equity capital.

- **Innovative Financing:** MSMEs are dependent mainly upon banks and informal modes of financing like family, friends and private money lenders. Self Help Groups (SHG) and Micro Finance Institutions (MFI) are only on its initial stage of financing. The possibility of linking MSMEs with secondary market need to be considered. Institutions like SIDBI need to design instruments to link MSMEs with capital market.

9. **Research Implications**

We went through various aspects in respect to development of MSME and recognized the prevailing gap areas for an economy to become developed from developing. If we start by implementing the Suggestions (mentioned as pointer VIII of this paper) then the expected outcomes will lead to exponential growth of MSME sector.

The present study gives a focused direction of MSME with respect to its further development and changes required in its operations. It is high time that out domestic, in-house goods must take the spotlight in market.

This study also infers towards the concept of SWADESI by our Prime Minister Mr. Narendra Modi, and considers it as a base line for further development in MSME sector.
As it is apparent from the study in the concept of MAKE IN INDIA by our Prime Minister is regularized, then on a confident note, the major problem of unemployment hand-in-hand with poverty in India can be countered to a remarkable extent.

10. Limitations
The major limitation of the current study is that it considers the data given on Internet for conceptualization. It is not a door-to-door research; it got its base from the research studies already being conducted by various trusted sources, mentioned in the Reference pointer XIII of this study.

11. Scope For Further Research
The Industry has gone through significant changes over past few decades, with the changes being loud enough and the pace so rapid was a never seen before site.

i. The further research can be carried out in the direction of how the suggestions of this study can be further regularized for a better outcome.

ii. It can focus on introducing more beneficial monetary policies for MSME owners, so that this sector can grow faster.

iii. Novel research in this sphere can be further branched in the area of new technologies that must be offered to MSME for a better quality and in-time production.

iv. It can be concerned with few new policies, wherein the private sector can promote the products of MSME.

v. A logical extension of this paper would be an analysis of requirement and strategies for publicizing or creating awareness of the MSME products.

12. Conclusion
The Micro, Small and Medium Enterprises (MSMEs) are one of the major segments of the Indian economy. It plays an important role in the economic development of the Nation. It is the major constituent sector in employment generation, production system, enhancing exports and GDP. But, there is a need to carefully nurture and support this sector. Joint effort is needed from the Govt. and MSMEs to acquire technological effectiveness. Financial support needs to be ensured taking into consideration the growing investment demand, including the requirements of technological transformation. This sector needs to adopt a proactive approach where the Govt. should propose a long term strategy to sustain them in the changing economic scenario and progress beyond the current GDP growth.

Every industrial and business organization has to take up the responsibility to meet the challenges posed by globalization. Not only the big business, but even a small business enterprise in India has to take up the responsibility to meet the standards, qualities, technological up gradation, skills technical know-how needed in the global market. Forty years ago, economist Ernst Friedrich Schumacher published in Britain his book ‘Small is Beautiful’ in which he argued in favor of human-scale, decentralized and appropriate technologies which small businesses could harness effectively. It means that even a small scale unit operating anywhere in India has to fulfill the standards set by the global giants which operate in India. This is not only in respect of a unit that produces final products but even the one which functions as auxiliary or artisan.
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