

# A VIBRANT SECTOR OF INDIAN ECONOMY: MSME

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**Abstract:** The economy's growth is somewhat indirectly linked with the growth of value addition made by different sectors of the economy. MSMEs have been developed to speed up this growth process and contributes towards its development. MSME makes the use of indigenous resources for the production of goods and services. Development of socially backwards sections of the society is the main motive behind the emergence of this sector. This sector is contributing towards 8% of GDP of India. According to the Annual Report of MSME 2017-18, 32% of the employment in MSME sector has been provided to manufacturing enterprises and 35% to trading enterprises. MSME sector has created 11.10 crore jobs in the country. The establishment of Technology centers and Pharma clusters will also be a new initiative to be taken by the Government of India. MyMSME- a web-based application module has been provided to facilitate the enterprises so that they can avail benefits provided by the Ministry. This paper would analyze the blastoff inception- their working in the past, their contemporary performance- their present scenario and the future prospects and anticipations of MSMEs in India.

**Index Terms-** MSME, Growth Indicator, MSME-future.

## INTRODUCTION

MSME (Micro, Small & Medium Enterprises) has been termed as ENGINE OF GROWTH for the development of India. From being just a small reform to a pillar of Economic Growth, MSMEs have gained spark nowadays. There has been a tremendous growth in this sector. More than 80 million people are employed in MSMEs catering to 8% of GDP of India. This sector does not require much investment leading to large scale employment. Beside generating employment, MSMEs encourages lower sections of society to be an entrepreneur. MSMEs are like a boon to local markets by providing diverse range of products. Chinese manufacturers are the biggest competition of Indian MSMEs. Reducing the overall cost of product will help them to sustain in the market.

According to the Annual Reports of Ministry of Small and Medium Enterprises, in the period from 1994-95 to 2014-15, there has been tremendous increase in the amount spent on the development of Khadi sector, i.e. from Rs.194.27 crores to Rs. 1454 crores. Interest subsidies to this sector have also seen a major increase.

It has been rightly said that every coin has two sides, similarly despite being a contributor to industrial growth, MSME has seen various growth hindrances like poor awareness regarding government schemes, slow upgradation in technology and difficulty in availing credit for development. Lack of professionalism, among the people involved, have created bars against the development of MSME.

## OBJECTIVE OF THE STUDY

This paper would analyze the past activities, the present scenario and the future prospects of MSMEs in India.

## METHODOLOGY

Only secondary data has been taken into account for conducting this study. The official website of MSME, annual reports, achievement reports and various research papers have been studied.

## LITERATURE REVIEW

**PRINCY SAINI (2014)** states that finance is the major stumbling block in the progress of the MSME sector. Lack of credit holds out success of many aspiring entrepreneurs in this sector. Competition from the external market is similar other problem. More focus on spreading awareness among the people regarding the benefits of being registered as an MSME.

**DR, SURENDAR GADE (2018)** states that MSME not only provide employment but also self-dependency. Also, its role is evidenced both in tangible as well as in non-tangible ways. The quality of innovation should be nurtured to stay competitive in this dynamic environment.

## DEFINITION OF MSME

The definition of Micro, Small and Medium Enterprises have been given both in respect of manufacturing enterprises and service enterprises.

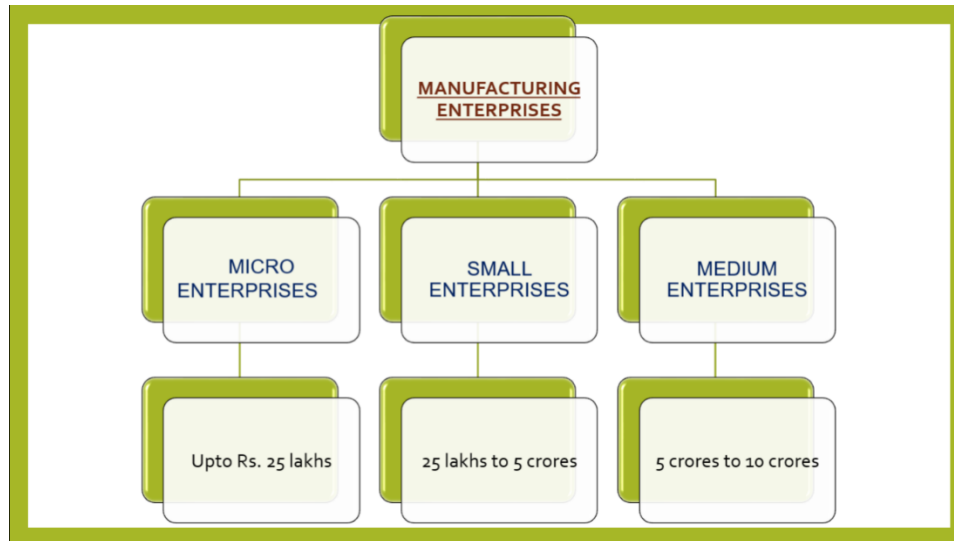


Diagram 1: Classification of Manufacturing Enterprises

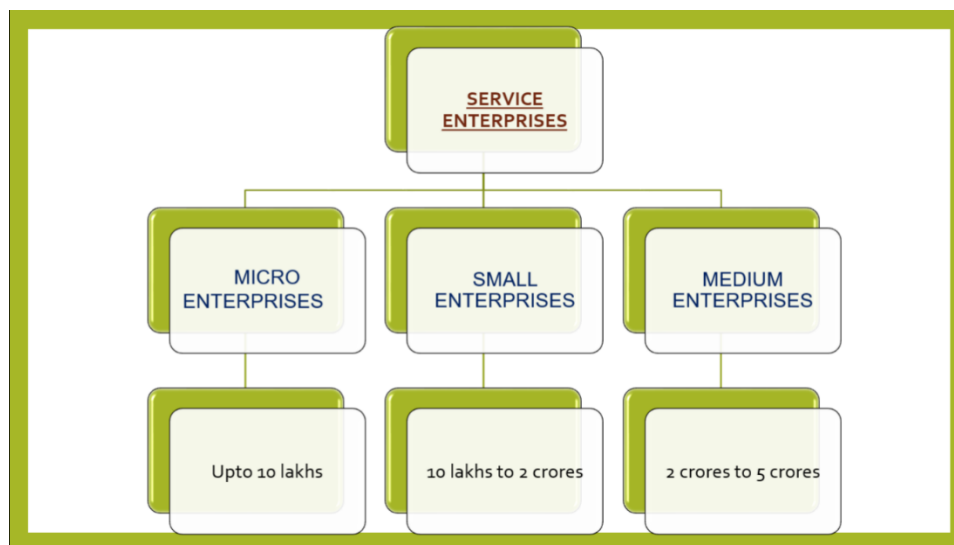


Diagram 2: Classification of Service Enterprises

SOURCE: Micro, Small and Medium Enterprises Development Act, 2006

## MSME INITIATIVES-THE PAST

Various initiatives have been taken in the past for the development of Micro, Small and Medium Enterprises. The main intent behind the establishment of MSMEs is to multiply the growth process of the economy. It commenced with the establishment of MSMED Act. Micro, Small and Medium Enterprises Development Act has been passed in 2006 for the overall development of these enterprises. These aim at enhancing growth of backward and underdeveloped sectors of the country. These provides the functioning and the provisions regarding the MSMEs. Reservation in this sector has been provided to protect the interests of SSI Sector. But with the advent of LPG in 1991, liberalization involved DE reserving a number of items which has been exclusively reserved for manufacturing by small scale sector. Technological upgradation, innovation, modernization and enhancing competitiveness of MSMEs are the main objectives of DE reservation. One more initiative is the Package for Promotion of Micro and Small Enterprises. This package has been developed for MSMEs. Supporting to women entrepreneurs, financial support, innovation and technological development are the key components involved in this package. National Manufacturing Competitiveness Program me has been developed exclusively for the manufacturing sector of MSMEs. Achieving Quality Management Standards, Upgradation of Technology, Practice of ICT in Manufacturing are the main objectives behind this program me. Adding to this, there is requirement to file Memorandum by enterprises. The requirement to file Memorandum by enterprises is voluntary in case of service enterprises but optional for the manufacturing enterprises. Such memorandum will be placed on the website for easy access by the others. An act was passed in order to discourage delayed payments from the buyers. Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertaking Act was passed in 1993 which

involves that interest will be payable from the day when the payment becomes due and that interest to be paid will not be allowed as deduction from income under Income Tax Act. NBMSME has been established examining the factors affecting the competitiveness and development of MSMEs. It aims at enhancing the competitiveness of such enterprises.

### MSME- THE PRESENT

MSME does not require much investment, thereby giving huge employment opportunities to the unemployed youth. MSME has been considered as a blessing to fresh manpower. Around 2 million jobs have been provided to youth in this sector every year. MSMEs have been serving as an aid to large businesses as ancillary units thereby contributing to socio-economic development of the country. New and better knowledge has been provided by emerging entrepreneurs. The working of small units assists the working of large-scale units. Semi-finished goods produced by this sector serve as raw material for the large industries. Large industrial houses merge the semi-finished products of different MSMEs into a fully developed finished product. With the advent of MSMEs, equitable growth opportunities are provided to each and every section of society. The marginalized sections of the society get upliftment when given a chance to contribute towards the economy of country. The assistance from Ministry behind this is bonus towards their growth. Highly skilled labor is not required in this sector. Due to non-requirement of much skills, cheap labor is available for the owner. MSMEs are still in their infancy stage. Lesser legal formalities are introduced when a new invention is developed. Small scale sector involves sole proprietorship keeping control among themselves. Work is completed with limited resources and limited capital. Small enterprises work on their own and does not require the aid of outsiders. Single handedly businesses are being run by individuals. More and more credit is available to this sector. The Government is taking initiatives towards the upliftment of this sector and one more milestone is achieved in the triumph of “Make In India” program me. MSMEs have been becoming the backbone of this program me.

### MSME – CONTRIBUTION

According to CSO, MSME’s contribution in Gross Value Added (GVA) and Gross Domestic Product (GDP) has somewhat declined over 5 years. But it can be seen that MSME has being a major contributor and account for an average of 30% of total GVA and GDP.

FIGURES IN CRORES					
YEAR	MSME GVA	TOTAL GVA	SHARE OF MSME IN GVA	TOTAL GDP	SHARE OF MSME IN GDP
2011-12	2583263	8106946	31.86	836329	29.57
2012-13	2977623	9202692	32.36	9944013	29.94
2013-14	3343009	10363153	32.26	111233522	29.76
2014-15	3658196	11481794	31.86	12445128	29.39
2015-16	3936788	12458642	31.60	13682035	28.77

DIAGRAM 3: Contribution of MSMEs in Country’s Economy at Current Economic price

SOURCE: Central Statistics Office, Ministry of Statistics of Program me Implementation

### MSME- ESTIMATED EMPLOYMENT

According to MSME Achievement Report 2014-2018, MSME sector has created 11.10 crore jobs in India. The employment opportunities generated by this sector includes 32% in the manufacturing concerns, 35% in trading concerns and 33% in other services providing concerns. Less than 1% have been in electricity sector.

BROAD ACTIVITY CATEGORY	EMPLOYMENT (IN LAKHS)			SHARE (%)
	RURAL	URBAN	TOTAL	
MANUFACTURING	186.56	173.86	360.41	32
TRADE	160.64	226.54	387.18	35
OTHER SERVICES	150.53	211.69	362.22	33
ELECTRICITY*	0.06	0.02	0.07	0
ALL	497.78	612.10	1109.89	100

DIAGRAM 4: Estimated Employment in MSME SECTOR

\*Non-Captive electricity generation and transmission

SOURCE: MSME ANNUAL REPORT 2017-18

### MSME – FUTURE PROSPECTS

MSME has been growing as an evolving sector nowadays. Government of India has given various initiatives and serves a collaborative force for the development of MSME sector. Government of India is going to provide Loans within 59 minutes through online portal up to 1 crore to MSME aspiring entrepreneurs. It involves availing of credit facilities in less than an hour if applying through an online portal. This provide round the clock facility of getting loans as and when required. Relaxations will be provided to GST registered MSMEs. 2% interest subvention is being decided to be provided to GST registered firms. Such relaxations provide advancement in the techniques to the working of MSMEs. Also, by providing easy and fast loans to the people of this sector, Banks are helpful in solving the problem of Cash cycle. The companies having a turnover of 500 crores will be going to be provided such facilities. Government of India is planning to establish technology centers for this sector in another 3-5 years. Around about 100 technology centers will be going to be set up at the budget of Rs. 6000 crores. The concept of virtual reality will be used. Manpower will be trained to use such concepts. One more step towards its development is setting up of Pharma clusters so as to uplift the manufacturing sector in the country. These Pharma clusters will provide facilities which will reduce 25% of the original cost in order to make them competitive.

### CHALLENGES OF MSME

MSMEs have been facing many challenges. Also support required from the concerned Government Departments is missing. This hinders the growth of MSMEs. Required finance is not provided timely to this sector. A lot of legal formalities are required to be complied in order to get finance from financial institutions. People forming this sector feel reluctant to fulfil these formalities and many a times, entrepreneurs get discouraged. Weak economic base of the people in this sector lowers their credit worthiness making it reluctant for them to avail loans. The entrepreneurs in this sector are mostly from rural background and they lack capital resources to start a business. Limited capital hinders the development of such entrepreneurs to establish themselves. Also, one person does not be able to perform each and every task regarding the business, moreover he does not possess the requisite skills and knowledge thereby hampering their success. Even if the resources are available but then also it involves incurring of huge amount of costs. Innovation and technology go hand in hand. Anything and everything are available as and when they are demanded. The entrepreneurs in this sector are not much educated and also resist learning newer technology thereby cripple their working and contribution towards the economy. It has been seen in order to get the work done in respect of such a dynamic environment, entrepreneurs hire the services of outside people. But they too are facing problems of higher labor charges. Labor is not available at affordable cost ultimately impeding their growth and facing competition from its contemporaries. Because of lower credit available for this sector, quality is not up to the mark. In order to survive in this competitive environment, one must be quality conscious. One must serve the society with quality products at reasonable costs. But MSMEs lack such consciousness and hence lack goodwill. Some of the other problems faced by MSMEs are Irregular supply of raw materials, Technology obsolescence, Lack of organized distribution channels and Imperfect knowledge of market conditions.

### CONCLUSION

Micro, Small and Medium-sized Enterprises (MSME) serves as Engine of Growth for the economy. This sector creates numerous employment opportunities to the unemployed persons. The Government must take initiatives to provide raw materials to this sector for the smooth working of this sector. The rules of banks should be liberalized in favor of this sector providing easy credit facilities to them. Much more easy regulations are required to be introduced by the Government. I have concluded that steps must be taken to make the

people believe themselves and encouraged to enter this sector as entrepreneurs. The benefits and the merits of being an entrepreneur must be described and explained motivating them and propelling them to enter this sector. New entrepreneurs will bring fresh talents and it will undoubtedly be improving the working of this sector, thereby increasing the efficiency of this sector. Awareness must be spread among the general public. This is possible through the support of the Ministry.

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