

# MSME'S AS AN ENGINE FOR ECONOMIC GROWTH IN INDIA

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## Abstract

The Micro, Small and Medium enterprises or MSME sector has been considered as backbone of Indian economy. This sector has been identified as one of the major contributors to the country's Gross Domestic Product and stimulator of growth in the nation. Since independence MSME's have strategic importance to the nation, due to its magnitude in terms of employment, production and export this sector has strategic importance to policy makers. In last few years many units in this sector closed down their operation. Closure of this small business entities not only become a stumbling block in the creation of employment opportunities but also hurt the development of the economy. Considering this opportunities and challenges Government of India has launched various initiatives to revive this sector such as Make in India, Startup India, Skill India. Along with these initiatives the MSME's has to change their approach in their operations in order to overcome their problems as well as to compete with other business units. This sector has been considered as the tool for achieving growth with equity and decentralization. Development of appropriate economic policy is crucial for the survival of this sector. This paper aims to analyze the importance, challenges of MSME sector as well as the various schemes formulated by the Government to promote MSME in India.

Key words: Micro, Small and Medium enterprises, Gross Domestic Product, Make in India.

## Introduction

The Micro, Small and Medium enterprises or MSME sector has been considered as backbone of Indian economy. This sector has been identified as one of the major contributors to the country's Gross Domestic Product and stimulator of growth in the nation. This sector plays an important role in generating employment opportunities and encouraging entrepreneurship in the country. They also plays an important role in supporting large business organizations by acting as ancillary units to such organization by providing materials and other equipments to such organizations to carry out their functions. Since independence MSME's have strategic importance to the nation, due to its magnitude in terms of employment, production and export this sector has strategic importance to policy makers.

In India about 90% of industries belong to MSME sector, employing 40% India's workforce. So we can say that development of this sector is crucial for the economic development of our nation. However in spite of this importance, this sector faces many challenges such as lack of timely availability of fund, obsolete technology, poor marketing strategies, intense competition from large business entities and so on. In last few years many units in this sector closed down their operation. Closure of this small business entities not only become a stumbling block in the creation of employment opportunities but also hurt the development of the economy. Considering this opportunities and challenges Government of India has launched various initiatives to revive this sector such as Make in India, Startup India, Skill India. Along with these initiatives the MSME's has to change their approach in their operations in order to overcome their problems as well as to compete with other business units.

This sector has been considered as the tool for achieving growth with equity and decentralization. Development of appropriate economic policy is crucial for the survival of this sector. According to the reports generated annually by the Ministry of MSME about 45% of the total Exports of the country are assisted by the sector, and are manufacturing more than 6000 quality products, which shows the immense potentiality for growth of this sector. Development of this sector will help the country to address many of its economic problems. One of the main benefits is that this will helps to reduce the migration of youth to the

rural areas. As the MSME's are mainly concentrated in rural area, the development of this sector will help to create job opportunities in rural area which helps to reduce the migration of youth to urban area in search of job. Along with this development of MSME's will also result in the development of rural economy. As the people of rural areas are getting jobs, there will be an increase in their income, which results in increase in their purchasing power. This increase in purchasing power will call for more investment in this sector and which would help to achieve development of the rural economy. This will help our country to achieve balanced regional development, which is one of the long term unfulfilled objective of the country.

### **Ministry of MSME**

The state Government has primary responsibility in the promotion and development of MSME sector. By undertaking its importance with regard to employment generation and economic growth the Government has formulated various policies and programs for the development of this sector. The Government of India has formulated and implemented MSME Development Act 2006. As a result of this Act a separate ministry of Micro small and medium enterprises was formed by the merger of erstwhile small scale industry and Agro rural industry. The ministry of MSME assists the states in promoting entrepreneurship, employment and increase the competitiveness of MSME in the changing economic scenario. The main objectives of the ministry is to provide:

1. Adequate flow of credit from financial institution and banks
2. Support for technology up gradation and modernization
3. Innovative and modern management practices
4. Entrepreneurship development and skill up gradation through Entrepreneurship Development Program and training
5. Better access to foreign and domestic market

### **Importance of MSME to the Economy**

The contribution of Micro, Small and Medium Enterprise to manufacturing output, employment and exports to country is quite significant. It plays a key role in the development of the economy with the effective, efficient, flexible and innovative entrepreneurial spirit. MSME's are considered as backbone of industrial development. They are less capital intensive and suit Indian economic environment with scarce economic resources and population basis. Each enterprise hold substantial value as it provides not only self employment but also opportunities to exponentially create job. Therefore it is not surprise that MSME's are acknowledge as backbone of the economy.

### **Importance of MSME in India**

Micro, Small & Medium enterprises are considered as the pillar of economic growth in many developed and developing countries in the world. MSME 'S is also termed as the "engine of growth" for India. Some of the key importance of this sector in the development of India both in terms of economic, and social development are follows:

1. Creation of employment opportunities  
As the amount of capital required for starting business in this sector is very less it creates huge employment opportunities for many unemployed youth. The employment opportunities are created not only directly but also indirectly that mean by starting a business unit he creates job opportunities not only for himself but also for other personnel who are working for him. By creating employment opportunities, unemployment rate in our country can be reduced and also leads to increase in the income of the nation.
2. Encourages Inclusive Growth:  
In India there is an inequality in the distribution of wealth among the people. This inequality can be removed to a great extent by promoting MSME's. Inclusive growth is on top of the agenda of Medium, and Small, and Medium sized enterprises for several years. Poverty and deprivations are the one of the most important challenge face by our country today. By creating MSME unemployment and poverty can be removed which in turns increase the income of the nation.
3. Cheap Labor and minimum overhead

In large scale organizations large number of employees may be working the organization so one of the key challenges for them is to retain the human resource through an effective human resource management. But in case of an MSME, the requirement of labor is less, and it does not need a highly skilled laborer. Hence, the indirect expenses incurred will be low.

#### 4. Simple Management Structure for Enterprises

Amount of capital required for the MSME is less. More over due to limited resources available within the owner's control, decision making process in the MSME's are easy and efficient. In large organizations, because of complex organization structures a specialist required for every departmental functioning. In case of MSME's, since they do not have complex organization structure they donot need to hire speacilist. The organization can be managed by the owner itself.

#### 5. Economic stability in terms of Growth and leverage Exports

The products produced by the MSME units have a great demand in domestic as well as foreign market. By adopting suitable marketing techniques this products can be marketed efficiently in domestic as well as foreign markets. By increasing the demand for goods in foreign market our country could able to increase their exports and thereby make balance of payment favorable. Today multi national companies are buying semi finished, and auxiliary products from small enterprises. It helps create a linkage between MSME and big companies. This linkage provides benefit to both MNC's and MSME'S. MNC could able to acquire good quality raw materials at low cost and the MSME's could able to earn income.

### MSME ASSISTANCE SCHEMES

According to economic census 2013, this sector consists of 45.3 million units and provides employment opportunities to over 116 millions. Considering its importance, the Government of India has launched various schemes and programs for developing MSME. Some of the important schemes are explained below.

#### 1. Performance and Credit Rating Scheme

The aim of these scheme is to get a opinion from trust worthy personnel regarding capabilities and creditworthiness of the micro, small and medium enterprises (MSME's) in order to find out its weakness and strength and inform the same to the MSME;s, so they could identify the drawbacks which would enable them to improve and enhance organizational strengths and credit worthiness.

#### 2. Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)

Credit Guarantee Trust Fund for Micro & Small Enterprises is trust established jointly by Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) in order to provide credit guarantee scheme for Micro and Small Enterprises. Under CGTMSE entrepreneurs can take collateral-free loans for starting businesses without the fear of defaulting. In case the borrower defaults The trust fund will reimburse the lending institution up to a certain limit,. The CGTMSE scheme is available for all SMEs and MSMEs except educational institutions, training institutions, retail traders, and self-help groups.

#### 3. Market Promotion & Development Scheme (MPDA)

This scheme was introduced by Khadi and Village Industries Commission (KVIC). This scheme is an amalgamation of various other schemes implemented by the Khadi sector which includes publicity, marketing, market promotion and marketing development assistance.

The major objectives of this are follows:

- To provide support for the marketing development activities of industries in MSME sector.
- To make demand for the products produced by MSME's.
- To provide better infrastructural facilities for MSME's.
- To find out new markets for MSME's in both national as well as international market.
- To create market segmentation for the products of MSME'S.

#### 4. Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

The objectives of the scheme is to create a cluster of traditional industries and artisans to enable them competitive and help them for their long term sustainability, sustained employment, to enhance

marketability of products of such clusters The scheme will help the traditional artisans to improve their skills as well as tools and thereby provide a competitive advantage to them.

#### 5. Financial Support to MSMEs in ZED Certification Scheme

The main aim of these scheme is to create Zero Defect & Zero Effect practices in manufacturing processes, and to ensure continuous improvement and support the Make in India initiative. This scheme helps the MSME's to have a awareness about ZED manufacturing and encourage them for assessment of their enterprise for ZED. By conducting ZED assessment they could able to reduce wastages substantially, increase productivity, expand their market, and can even develop new products.

Following are the benefits for MSME's with help of this scheme:

- Develop an Environment of zero defect manufacturing in MSMEs.
- Promote usage of Quality tools and Energy Efficient manufacturing.
- Help MSME's for manufacturing of quality products.
- Encourage them to upgrade their quality standards in manufacturing processes.

#### 6. Micro & Small Enterprises Cluster Development (MSE-CDP)

The Ministry of MSME has adopted cluster development approach for enhancing productivity, competitiveness and capacity of MSMEs. The Scheme provide financial assistance for the development of Common Facility Centres (CFCs) for testing, training centres, R&D, Effluent Treatment, raw material depot, complementing production processes and to upgrade infrastructural facilities in the new as well as existing industrial areas or clusters of MSME's.

### **Challenges faced by MSME in India**

#### 1. Availability of Finance

Finance is considered as the life blood of the business, For smooth conduct of business operation availability of finance is very important. However units in the MSME sector find it difficult to raise finance. Due to their weak economic base they find it difficult to raise funds from commercial banks and financial institutions. Though the Government has formulated various schemes, timely availability of benefits from these schemes is still not possible.

#### 2. Availability of Raw materials

Another problem faced by MSME's are associated with procurement of raw materials. Most of the raw materials used by the MSME's are locally made available. Quality as well as regular availability of these raw materials is an important issue face by the MSME. Both aspects are very important to carryout production process efficiently and effectively.

#### 3. Marketing problem

Most of the MSME's do not follow marketing strategies for carrying out marketing functions. Today the economy is more competitive. Today the MSME's have to compete with MNC's as result of new economic policy. So in order to compete with this large organization the MSME's needs to have adequate marketing strategies or else they won't able to survive.

#### 4. Under utilization of capacity

Most of MSME units do not utilize their capacity fully. The reasons behind this may lack of finance to carry out production or lack of sufficient human resources, or low demand in the market and so on. Lower utilization of the capacity is wastage for the economy.

#### 5. Lack of entrepreneurial skill

The people who run the MSME unit usually do not have entrepreneurial talents or skill. They might not have knowledge of challenges and threats that they are going face while running the business units. Thus whenever they face challenges they will have a tendency to abandon the business. Entrepreneurship training programs would help to build skill and knowledge among and equip an entrepreneur to face challenges.

### **Conclusion**

The importance of MSME's in economic development is undisputable today. However the policy formulation and strategic approach needs more clarity. Over the years, MSME's have assumed greater significance in our economy. This sector has great potential for employment generation and industrial growth. This sector has been identified as an important pushbutton for national program Make in India.

Though this sector faces numerous challenges by adopting appropriate strategies this challenges and threats can be converted to opportunities. Though the Government has formulated various policies to support MSME units, they must ensure that the benefits of these are equally and timely available to all units. Though we have improvement in recent years, we are still at 130<sup>th</sup> position in ease of doing business, which indicate that we have to do much more things.

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