

Development of MSMEs in India- Trends, Issues and Concerns

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ABSTRACT

The Micro, Small and Medium Enterprise sector engages in manufacture and export activities—two important drivers of the Indian Economy. This paper describes in detail, analysis of performance and growth of MSMEs and also outlines the opportunities available for the MSMEs in Indian Economy. The MSMEs occupies strategic importance in terms of output, export and employment. This study is going to highlight the strategic importance of MSME sector in current economy scenario, bring out challenges for the MSMEs operating in India and the way forwarding to help MSME sector to achieve its full potential in order to be growth engine for Indian Economy by end of the decade. The Government had already announced some relief packages, but much more need to be done and much more expected relief package that can insulate them at the time of writing.

KEY WORDS

MSMEs, Employment, GDP, Export, Finance, Growth performance, Opportunities and Threats.

INTRODUCTION

After independence the Government of India had realized that the MSME Sector provides means of livelihood, for a big part of the population. Government had felt the need for preventing the decline of MSME sector by giving a legitimate position to the industry in the national economy to recognize them. In a conference convened by the Government in 1947, a resolution was passed which reads as follow. While size and nature of these industries make it unavoidable, that their proper development must remain the responsibility of Government. The central Government should investigate how far and in what manner these industries could be coordinated and integrated with the large scale industries (Rao 1977). Now after six decade of economic planning and development, the MSME sector has acquired a lead role in the Indian economy growth. It is contributing significantly to employment generation, innovation, export, and inclusive growth of the economy. The MSMED Act 2006 was enacted to provide policy environment for promotion and development of the sector by way of defining MSMEs.

Attempts to define MSME sector

MSMEs definition - Micro, Small and Medium enterprises Development (MSMED) Act 2006 which was notified on October 2, 2006 has classified the MSME sector in two categories as:

- **Manufacturing Enterprises:** The investment in Plant and Machinery for those enterprises engaged in manufacturing or production of goods (as per Development and Regulation Act 1951) in the process of value addition to final product having a distinct name and character or use.
- **Service Enterprises:** The investment in equipment for those enterprises engaged in providing or rendering of services.

Revised Definition of MSMEs

As per new definition of Micro, Small and Medium enterprises, announced in May 13, 2020, reclassified all MSMEs whether they are manufacturing or service providing enterprises, on the basis of their annual turnover. The new classification would eliminate the need for frequent inspection, which was earlier required to check the investment in Plant and Machinery. The distinction between manufacturing and services has been done away with classification of enterprises as Micro, Small and Medium Enterprises.

EXISTING AND REVISED DEFINITION OF MSMEs

Type of enterprises	Act 2006	Act 2006	Revised in 2020
	Manufacturing	Services	Manufacturing and services
	Investment in Plant and Machinery	Investment in Equipment	All investment and annual Turnover
Micro	Investment <Rs.25 lakh	Investment <Rs.10 lakh	Investment<Rs.1Crore and Turnover<Rs.5 Crore
Small	Investment < Rs.5 Crore	Investment< Rs.2 Crore	Investment<Rs.10 Crore and Turnover< Rs.50 Crore
Medium	Investment< Rs.10 Crore	Investment< Rs.5 Crore	Investment<Rs20 Crore and Turnover <Rs.100Crore

However this proposal is yet to be implemented. To be effective the proposal will need amendment in the MSMSD Act and passed through the parliament.

MISSION AND VISSION

Our Government has set a target to make Indian economy worth USD\$5 trillion by 2024. The Ministry of MSME Sector has taken upon self to contribute around USD\$2 trillion of it from MSMEs. To accomplish this, export contribution which currently stands at 50% from the MSME sector will have to increase to 75%. The employment generation, from the MSME sector will have to extend to 15 crore as against 11.10 crore at present. To meet the target it is necessary for Indian enterprises to do new researches, successful practices and try to understand the successful technologies in the world. There are many steps that have been taken for improvement in this sector. This involves making them aware of the intellectual property right to register their trademarks and patents. By giving procurement, marketing support and opening of design clinic under HRD Minister. This clinic will provide design support to MSME enterprises including rural and art based enterprises. Job creation, technology advancement and skill development for the MSMEs under the Technology Center Systems Program (TCSP), Cluster Development Program (CDP) and various credit schemes have been implemented by the Government.

CURRENT SCENARIO OF MSME SECTOR

- 1) **To generate large scale employment:-**MSMEs known as one of the top employment generator according to the number shared by the Ministry of MSME, Government of India. Technology startups that increased from 8900 to 9300 in 2019 have generated only 60000 direct and 1.3 to1.8 lakh indirect jobs in 2019. A programme named, Prime Minister Employment Generation

Programme (PMEGP) made it possible. The scheme PMEGP being implemented by the Ministry of MSME since 2008-2009. The main aim of the scheme is generating self employment opportunities through establishment of Micro enterprises in the area either rural or urban where unemployment youth and traditional artisans get a chance of earning livelihood. Under the Prime Minister Employment Generation Programme (PMEGP) the estimated employment generated in Micro enterprises in table I below has show increasing trend.

Table I Employment Generation/year

Years	Number of Employment(in lakh)
2014-15	3.58
2015-16	3.23
2016-17	4.08
2017-18	3.87
2018-19	5.87

While MSMEs increases its contribution to the GDP. It has to increase its contribution to employment generation by 10-15 million job opportunities every year, over the next decade to create a large number of employments to its population.

Distribution of Employment in the MSMEs

Micro sector with 630.52 lakh estimated enterprises provide employment to 1076.19 lakh persons, which account for 97% of total employment in the sector. Small sector with 31.95 lakh and Medium sector with 1.75 lakh estimated MSMEs provide employment around 2.88% and 0.16% of total employment in MSME sector respectively. Table II show the distribution of employment in MSMEs.

Table II

Distribution of Employment in Urban and Rural Area (Number in lakh)

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	55
All	1079.19	31.95	1.75	1109.89	100
Share%	97	2.88	0.05	99.93	

Sources:- Annual Report 2018-19 MSMEs Government of India.

Out of 1109.89 lakh employees in MSMEs 844.68 lakh (76%) are male employees and remaining 264.92 lakh (24%) are female. Table III show the distribution of worker in male and female category.

Table III

Distribution of worker in male and female category (Number in lakh)

Sector	Female	Male	Total	Share%
Rural	137.50	360.15	497.78	45
Urban	127.42	484.54	612.10	55
Total	264.92	844.68	1109.89	100

Sources:- Annual Report 2018-19 MSMEs Government of India.

- 2) **Key factor of economic growth and increasing export of MSMEs:-**Whether MSMEs is agriculture, manufacturing and service industry. Statistics show that MSMEs account for 45% of industrial output and 40% of total export in India. MSMEs have a network of 30 million units which produce more than 6000 different type of products. The share of MSME related products in total export from India during 2018-19 is 48.10% as per **Directorate General of Commercial**

Intelligence and Statistics (DGCIS). The jump in the share of export from MSMEs in 2018-19 is impressive as compared to preceding year 2017-18, when MSMEs was contribute only 7.5% (USD\$147.40) from total export. The share for FY 2016 and FY 2017 stood at 5.9% (USD\$130.7) and 4.8% (USD\$137) respectively. Table IV show the share of export from MSMEs.

Table IV
Export from MSMEs (Value in Billions)

Years	Value in USD Billions
2012-13	128.0
2013-14	133.3
2014-15	138.9
2015-16	130.8
2016-17	137.1
2017-18	147.4
2018-19	330.0

Source: Directorate General of Commercial Intelligence and Statistics. Government of India.

Export contribution of MSMEs to India's export stand at 49% will increase to 60 to 75%. To accomplish this task MSMEs must understand the need of foreign market and produce accordingly. Every entrepreneur in MSMEs has to identify resources in each state of the country and exploit their potential in accordance with the preference of foreign market. We need to interaction with different countries to understand what they want, on the basis of that we should make our plans and implement them. We should pay more attention to improve our quality of production to be able to sell production in the international market. Much more attention to be pay to decrease the cost of production, largely linked with costs of power, logistics and capital.

- 3) **Making growth inclusive:-**The MSMEs contributes significantly to the Indian Economy in terms of GDP, export and employment generation. The Government is exploring new financial lending institution to support inclusive growth and development of MSMEs across the country. She is working towards strengthening the NBFCs which will help small business to avail easy credit in the coming time. It should be transfer this credit line to the poor and economically backward entrepreneur, which can help to grow their industry. Information received from ministry of MSMEs that there has been restructured of 6 lakh MSMEs till March 2020 and the Ministry is aiming to cover additional 25 lakh units up to December 2020. The National Manufacturing Competitiveness Programme encourages MSMEs to adopt Information and Communication Technology tools and application for their business process. Government of India steps towards to improve facilities of training Institution Scheme, which gives financial support to national level training institution operating under the Ministry of MSMEs. This helps to strengthen SME infrastructure and create skill development programme for enterprises.

CHALLENGES AND ISSUES OF MSMEs

In India, at present there are 30 million units in various industries, which produce more than 6000 products, employing close to 124 million people, nearly 14% are women led enterprises and close 55% are based in rural area. In all, the MSMEs account for 31% of India's GDP and 49% of export. Despite the enormous growth potential the MSMEs have, the sector is still plagued with various challenges.

- 1) Lack of capital due to in adequate access of finance and credit.
- 2) Inability to attract talented and tech-skilled manpower.
- 3) Lack of innovation.

- 4) Poor infrastructure and utilities resulting in low production capacity.
- 5) Age old inefficient method of operating business.
- 6) Technology and digital knowledge gap.
- 7) Lack of making Know-how.

Impact of COVID-19 and Lockdown on MSMEs

Lockdown in India has given a very serious threat to Indian MSMEs, which had USD\$330 billion share in the country's total export in FY2019. Due to lockdown, one thing is very clear that the MSMEs will be taking a maximum hit and render many people jobless and will lead to the closure of thousand of industrial outlets forever. Indian economy will be most affecting as the global trade is shrinking up due to supply chain disruption. China is playing a very important role for India as supply chain of MSMEs. This sector is largely depending on China for its raw material. Thus complete lockdown in China and India have led to lots of challenges, like shrinking of export, closure of production, non availability of manpower, uncertainty of consumption and liquidity squeeze in the market. As well, MSMEs is a labor-intensive sector will take a maximum hit because they are largely depend on advanced economies like Europe and US that are virtually in a lockdown condition. Foreign buyers have stopped for some time on their orders for Indian MSMEs product caused the growing corona viruses impact across the world. Even as most possible chance of these orders getting cancelled eventually, according to the export promotion body Federation of Indian Export Organization (FIEO). Due to lockdown around 70% of MSMEs are not able to pay salary to their employees. According to the Confederation of All India Traders (CAIT) which represents 70 million traders in India and the majority of them are MSMEs, the trade impact for India is estimated to be around Rs.380 lakh. It seems that the current situation may prevail until FY 2021. However, exact figures with respect to the number of MSMEs exporters and impact on export are yet to be known.

Special relief and credit packages to minimizes the effect of lockdown for MSMEs

Indian economy hit badly by the lockdown due to corona virus, MSMEs hit badly too. There was need of some relief packages for MSMEs to stand again and move on track. On May 13 2020 Government has announced 6 reforms to prop up the MSMEs, are as follow.

- 1) **Three lakh crore collateral free loan:-**Collateral free automatic loan for SMEs up to 3 lakh crore which means, there is no need to pay any guarantee for the loan available under this scheme, by the MSME unit. Also for the first year no, need to pay principal component. The tenure of the loan will be for 4 year. This will help 45 lakh units resumes business activities and safeguard job.
- 2) **Rs.20, 000 crore subordinate debt:-**Rs.20000 crore subordinated debt for weak MSMEs facing financial problem. It will help functioning MSMEs which are either NPA (non performing assets) or are economically stressed. The Government will provide Rs. 4000 crore partial credit guarantee support to banks and promoters of the MSMEs will be given debt by banks in the form of equity infusion.
- 3) **Rs.50, 000 crore equity infusion:-**This will help to MSMEs by providing them big support in capacity expansion and for the purpose of marketing listing. This will cover all MSMEs which are performing very well and can take the advantage of this scheme.
- 4) **Revised MSMEs definition:-**The definition of MSME is being changed to encourage MSME to perform very well and expand capacity without losing on the benefits availed by MSMEs. The differentiation between manufacturing and service MSMEs is being removed. The investment limit that defined MSMEs is being revised upward along with the addition to turnover as criteria to categories MSMEs, which is already discussed above in this study.

- 5) **Global tenders disallowed:**-The Government tender up to Rs.200 crore will no longer be open to global tender /players, allowing MSMEs the chance to complete. This was a major step towards creating a self reliant India.
- 6) **Clearing MSMEs dues:**-Post covid trade farer will be difficult therefore e-linkage market is being provided to MSMEs. In addition to this the Government has promised to clear all receivables due to MSMEs in the next 45 days.

Schemes launched by the Government for MSME sector

- 1) **Udyog Aadhar:**-For registration in this scheme aadhar is mandatory requirement. In this scheme MSMEs can take advantage of ease in availing credit, loans and subsidies from the Government, online and offline both modes are available for registration.
- 2) **Easy access to market:**-Our Government has announced that Public Sector Companies (PSU) have now been asked to compulsorily procure 25% instead of 20% of their total purchases from MSMEs. To support women entrepreneur, facilitate capital, counseling, training and delivery techniques for manage their business. Further the government has maintained that out of the 25% procurement mandated for MSMEs 3% must now be reserved from women entrepreneur and 4% owned by SC/ST. For effective implementation and monitoring a portal, named MSME-SAMBANDH has been launched by Central Government.
- 3) **Direct benefit transfer in the M/O MSME:**-This scheme have been implemented with the intention of re- engineering the existing process in welfare and subsidy scheme, for simple and fastest flow of fund and to ensure the beneficiary to take advantage of this scheme and minimize de-duplication and fraud. In 2018-19 20 schemes of MSME were on board on DBT Bharat Portal, out of which 1 scheme named Coir Udyami Yojna Scheme has been subsumed in Prime Minister's Employment Generation Programme (PMEGP).
- 4) **MSME SAMADHAAN:**-This scheme deals with the issues relating to delayed payment to MSEs by the buyer to the MSME supplies. In case payment is beyond 45 days, MSEs suppliers can complaint the Micro and Small Enterprises Facilitation Council (MSEFC) and receives compound interest with monthly interest at 3 times of the bank rate notified by the Reserve Bank. Ministry of MSME has launched a portal, namely MSME SAMADHAAN Portal can file delayed payment complaints online. It will automatically register with the MSEFC concerned with 15 days.
- 5) **Grievance Monitoring:**-The Ministry has launched an MSME internet grievance monitoring system (eSAMADHAAN) to track and monitor grievance and suggestions received in the Ministry.
- 6) **Market Assistance Scheme:**-This scheme provides a platform to MSME for interaction with the individual/institutional buyers. With the help of this entrepreneur can take update of market scenario and redress their problem.
- 7) **Technology Centre System Programme (TCSP):**-Ministry of MSME launched TCSP to expand and upgrade network of Tool Room and Technology Development Centers. TCSP has been conceptualized the creating innovative eco-system, which includes 15 New Technology Centre and modernization of existing Technology centre.
- 8) **MY MSME:**-The Office of Development Commission (MSME) has launched a web-based application module namely, My MSME, which facilitate the enterprises to take benefits of various scheme and move their applications and track it on their mobile itself. Data Bank is helpful to MSME UNIT, it update information about their product services, which can be accessed by Government department to do procurement under Public Procurement Policy of the Government of India.

METHODOLOGY

This research paper is primarily based on secondary data. All financial data are compiled from annual report MSMEs Government of India and different books. Further articles and information available in different journals and press information bureau Government of India MSMEs are also referred for compilation of this paper.

CONCLUSION

The time has come to watch the gravity situation of Indian Economy after lifting lockdown with some precautionary step. Lockdown has almost stopped the activities of MSMEs. Micro Small and Medium enterprises sector need some rescue operations. Though revenue of many MSMEs has been dried up in this crises situation. This all depends on Government decision to ensure least harm and fast recovery of MSMEs. Activities and initiative taken by Government of India with an objective to provide a grand push to MSMEs will definitely rescue the MSMEs. But to move on track MSMEs take little more time because scarcity of labour and capital. The industry, research institution and academicians should be facilitated and encouraged to work in collaboration in order to improve industry capabilities. The linkage between the MSMEs and the educational institution should further improve.

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