



Analysis of Indian MSME's and Entrepreneurial Environment

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Abstract:

Nations across the globe have been acknowledging the significance of the Micro Small and Medium Enterprises (MSME's) in fostering the growth of their economies. The Indian MSME sector, earlier known as Village and Small Scale Industries (VSI) renamed as Small Scale Industries (SSI), have been neglected due to laxity in government policies and repressive approach of established business houses and institutional undertakings as a consequence of which the sector lost its share in the growth of the nation. In India MSME's play crucial role in distribution of national income and wealth. The paper critically examines the literature on Indian MSME's with an aim to ascertain their contribution in the GDP from 2010 till 2021. It is pertinent that the contribution of MSME's in the nation's GDP has been significant over the period and the various reasons for it could institutional support, competition with established business houses, entrepreneurial environment etc. The paper seeks to analyse the contributory factors and their role in the growth of MSME's in Indian context and also to recommend policy measure for the revival of sector.

Keywords: Knowledge Entrepreneurship, Innovation, Incubation, Simulations and Entrepreneurial Environment

INTRODUCTION

Micro, Small, and Medium Enterprises (MSME) have long been recognized as the engine of economic development and a means of encouraging equitable growth around the world, particularly in India which is the world's second-most populous country. Rural entrepreneurship has a lot of potential in the SMEs (Small and Medium Enterprises) sector, which is critical for generating jobs opportunities and reducing income disparities in rural areas. Rural industrialization is characterized by low capital investment, high labor intensity, and the utilization of rudimentary technology while utilizing local human and material resources. As a result, a judicious mix of local labor and resources is required to achieve sustainable development in these areas. They have aided in the establishment and growth of the khadi, village, and coir industries. They have coordinated with related ministries, state governments, and stakeholders to develop rural areas. There are approximately 6.3 crore MSMEs in India as of October 21, 2021, according to the MSME Ministry data. Through national and international trade, the Indian MSMEs sector contributes about 29% to the GDP. Government e-Marketplace (GeM), which is owned and run by the government, is encouraging MSMEs to market their products on the e-commerce platform. As of June 25, 2021, the GeM portal had processed 6.87 million orders worth ₹116,291 crores (US\$ 15.67 billion) for 52,651 government customers from over 2 million registered sellers and service providers. The statistics say 72 percent of the total payments are done digitally. With the help of these e-platforms, the sector is moving towards a digital payment world than cash. This will lead to future growth prospects in the sector.

The Government of India's 'Atma Nirbhar Bharat Abhiyan' or 'Self-Reliant India' Scheme of 2020, has given MSMEs a broader identity. This scheme has new features- A provision to provide collateral-free loans to MSMEs, arrangement of loans worth ₹3 lakhs crores, offer to get a 12-month moratorium period, consideration of manufacturing and service MSMEs as the same entities, granted a repayment tenure of 48 months, assured a 100 percent credit guarantee.

The government has devised many measures to promote the growth of MSMEs in the country. In September 2021, Mr. Narayan Rane, Union Minister for MSMEs, announced the 'India Export Initiative' and the 'IndiaXports 2021 Portal', to assist exporters in meeting their target of exporting goods manufactured by MSME's to the extent of ₹2,928,000 crores (US\$ 400 billion) by the end of FY22, and then increasing it to ₹7,320,000 crores (US\$ 1 trillion) by FY27. Further, to strengthen the local silk industry and create jobs, the Khaadi and Village Industries Commission (KVIC) created the first 'Silk Yarn Production Centre' in Odisha, Mr. Narayan, Union Minister for MSMEs, will launch the Rohtak Technology Centre, which would train around 8,400 people every year, the Khadi and Village Industries Commission (KVIC) announced the SPIN (Strengthening the Potential of India) initiative and constructed a pottery cluster in Varanasi under the SFURTI Scheme to support more than 1,100 marginalized potters, The Lok Sabha recently passed a bill called "Factoring Regulation (Amendment)" to speed up the payments ecosystem for MSMEs. MSMEs received a

budget allocation of ₹15,700 crores (US\$ 2.14 billion) in FY22, up from ₹7,572 crores (US\$ 1.03 billion) in FY21. The government also announced collateral-free automatic loans worth ₹3 lakh crore (US\$ 40.85 billion). In the Union Budget 2021, the government granted funding of ₹ 10,000 crores (US\$ 1.36 billion) for the 'Guarantee Emergency Credit Line' (GECL) facility to qualifying MSME borrowers, giving the sector a huge boost.

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Objective of Study:

The study attempts to cover some qualitative aspects of MSMEs and Entrepreneurial Environment keeping in light of existing literature:

- To analyze the relation between growth in MSMEs due to Government Policies..
- To find the trends of contribution in India's GDP by MSMEs.
- To identify and explain MSMEs will have significant impact on the entrepreneurial environment of the nation.

LITERATURE REVIEW

The manufacturing industry's sustainability is a critical step toward creating a greener world. Firms have launched major sustainable steps in the last two decades to address concerns of environmental and societal hazards as a result of rising industrialization. In a competitive climate, this study attempts to explore the motivation of Micro, Small, and Medium Enterprises (MSMEs) toward achieving sustainability. For this purpose, the data acquired through a questionnaire survey from 262 manufacturing MSMEs in India was analyzed using structural equation modeling (SEM) and other conventional statistical techniques. According to

the findings of the study, organizational sustainability emerged as a driving source of incentive to improve company performance among manufacturing MSMEs in India. Furthermore, organizational sustainability has a considerable mediating effect on entrepreneurial commitment and commercial performance. It also demonstrates the importance of organizational sustainability as a strategic action in the direction of a green and clean environment. (Singh, Chakraborty, & Roy, 2016)

MSMEs in India employ over 10 million people each year, making them the second largest sector in terms of job creation and fair regional development after agriculture. MSME's in India account for more than 90% of the industries in the country, contributing 45 percent to industrial production, 40% to national export, and 17% to GDP, demonstrating that this sector is the backbone of the Indian economy. Uninterrupted and long-term sources of capital are vital for the nation's industrial progress. The government and Indian financial institutions have made significant contributions to the development and promotion of the MSME sector. The focus of the study is on the role of financial institutions in the overall development of MSMEs across the country. The paper also attempts to evaluate the sector's opportunities and obstacles for raising funds through financial institutions, which policymakers could consider for better results. (Dahale, Khairnar, Jain, & Patil, 2015)

The goal of this article is to investigate the relationship between stakeholders' influence and environmental responsibility of Micro, Small, and Medium-Sized Enterprises (MSMEs) in a growing economy, as well as the effects. A sample of 110 MSME of Malaysia took part in the research. The data was gathered using a questionnaire that measured the 12 constructs of focus. Structural equation modeling using Smart PLS, was applied to test the hypotheses and investigate the linkages proposed in the research framework. According to this study, only employees and consumers have a substantial impact on MSMEs' environmental responsibility policies. Furthermore, environmental responsibility has been linked to financial gains and improved employee as well as client's relations. (Nejati, Amran, & Ahmad, 2014)

Due to MSMEs' various contributions in terms of output, exports, and employment, it has evolved as a critical component of the Indian economy throughout the years and has now taken centre stage in India's economic development. Using the Johansen-Juselius co-integration test and the Granger causality test, this study explores the causal link between MSME output, MSME exports, total exports, and GDP in the Indian economy. According to the study's conclusions, based on the Johansen-Juselius test, there is no indication of a strong long-run co-integrating link between the variables. However, the unrestricted VAR (of first differenced data) results show three cases of unidirectional Granger causality: (i) MSME export growth Granger causes India's GDP growth; (ii) MSME export growth Granger causes India's total export growth; and (iii) MSME production growth Granger causes MSME export growth. (Sanu, 2019)

The purpose of this research was to conduct an in-depth examination of how Indian MSMEs can compete in the global market despite multiple hurdles in various forms. It was discovered that the Indian economy faces a

number of obstacles, including excessive borrowing costs, trouble obtaining raw materials at competitive prices, limited infrastructure facilities, and a shortage of skilled labor. To counter the obstacles, Government has launched new schemes and programs such as Make-In India, Skill India and Digital India over the years. More efforts in the form of higher investment in advanced technology and research and development, increased use of digital and technology-enabled platforms, technology transfer, increased investment in human resources, improved access to finance, reduced infrastructure gaps, and less stringent business regulations can all help MSMEs improve their competitiveness. (Mukherjee, 2018)

(Anand, 2015) focused on the potential and obstacles for SMEs to internationalize, as well as their policy framework, financing, and market access, as well as socio-cultural norms, with a particular focus on agro-based and biotech-led SMEs. Lack of adequate and timely banking funding, inadequate capital, access to international markets, and knowledge management are among the primary issues noted. Enhancing SME competitiveness is critical, which necessitates the construction of a legal, regulatory, and administrative environment, as well as access to finance, capable institutional structures, and, most significantly, human resources. SME's must embrace global changes in cultural norms in order to survive and find their position in the global market. The most significant transformation required is a shift in stakeholder attitudes as well as the thinking of institutions involved in small business growth. Efforts should be taken to fully utilize the opportunities by globalization. This can be achievable only if we make our SMEs financial literate and to contribute towards removing unemployment.

Small Scale Industries (SSI) play an important part in planned development because of their high potential for job creation, inexpensive investment, industrial diversification, industry dispersion to rural areas, regional balancing, and promotion of entrepreneurship in a developing economy. The purpose of this research is to determine the growth performance of small scale industries in India from 1990 to 2016. Furthermore, the research separates the entire period into two sub-periods: pre-MSME Act (1990-91 to 2005-06) and post-MSME Act (2006-07 to 2016-17) in terms of four indicators: unit count, production, employment, and exports. Exports grew at a double-digit rate in the post-MSME period, according to an examination of annual growth rates. In comparison to pre-MSME Act, the Instability Index value demonstrates considerable variations in the number of units, production, employment, and exports in the post-MSME Act period. (Bains & Arora, 2019)

METHODOLOGY

This paper is broadly based on exploratory research. The secondary data available from various reports and existing work on the topic has been analysed to conclude the results. The time period of the study is from year 2010 to 2020, as the data for different parameters was available for different years. The data reported in the Annual Reports of MSMEs, Reserve Bank of India, Small Industrial Development Bank of India and 4th MSME Census, National Sample Survey Organisation 73rd round etc. has been used for the analysis. An

attempt has been made to establish a relationship between the growth of MSMEs and entrepreneurial environment creation in the economy along with a policy suggestion to further strengthen the MSMEs of the nation and enhance the entrepreneurial environment of the nation.

Hypothesis:

H₀₁: There is no significant growth in MSMEs due to Government Policies.

H_{a1}: There is significant growth in MSMEs due to Government Policies.

H₀₂: MSMEs have no significant contribution in the GDP.

H_{a2}: MSMEs have significant contribution in the GDP.

H₀₃: Promotion to MSMEs has no significant impact on the entrepreneurial environment of the nation.

H_{a3}: Promotion to MSMEs will have significant impact on the entrepreneurial environment of the nation.

H₀₄: There has been no impact of Covid-19 on Indian MSMEs.

H_{a4}: There has been significant impact of Covid-19 on Indian MSMEs.

H₀₅: There is has been no significant role of institutions and associations in promotion and establishment of MSMEs.

H_{a5}: There is significant role of institutions and associations in promotion and establishment of MSMEs.

ANALYSIS

For the purpose of this study, credible data has been obtained for MSMEs in India, covering the period 2009-10 and 2019-20. The SME sector includes service industries, manufacturing, packaging, infrastructure, food processing, information technology, and chemicals, has emerged as India's most dynamic driver of growth.

1. There is significant growth in MSMEs due to Government Policies.

The Indian government has devised many measures to promote the growth of MSMEs in the country like Start-up India, Stand-up India, 'Atma Nirbhar Bharat Abhiyan' or 'Self-Reliant India' Scheme, etc. The initiatives taken to boost the MSME sector's manufacturing capability are projected to improve the product competitiveness and increase exports. Higher value addition, cluster development, talent development and training, a focus on standards and quality, access to affordable credit, and an impetus for innovation would all be necessary measures to boost Indian MSMEs' competitiveness. As per the Annual Reports 2019-20, total expenditure on these industries is around 6717.64 crores in which expenditure on SME Division is 136.08 Crores, ARI division (KVIC, COIR BOARD, MGIRI & SFURTI) - 3692.21 crores, O/O. DC (MSME) - 2889.35 crores.

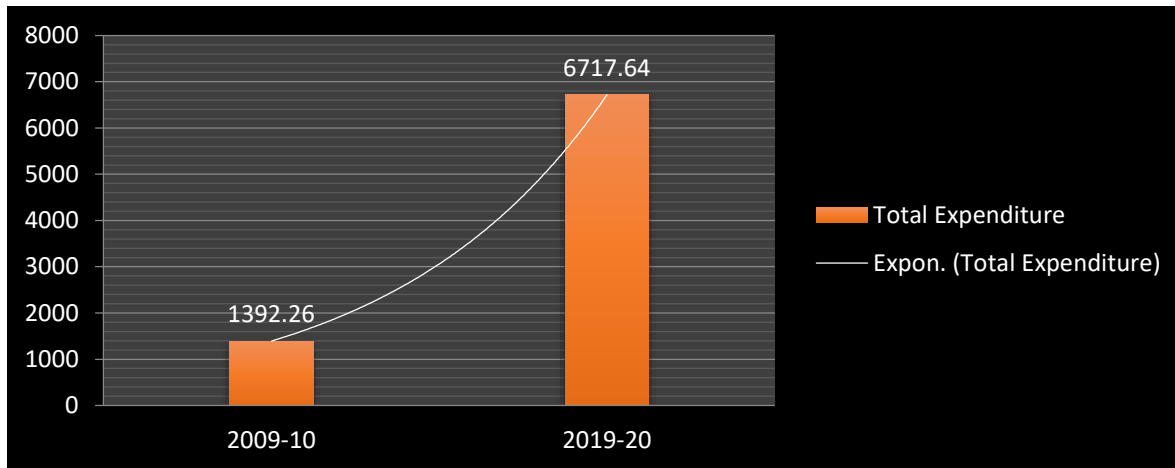


Figure 1: Plan Allocation and Expenditure during 2009-10 to 2019-20

Under the Prime Minister's Employment Generation Programme (PMEGP), MSMEs have been able to employ during the year 2020-21 and 2021-22 (as on 01.07.2021) are 5.95 lakhs and 1.19 lakhs respectively. As of December 31, 2020, 537,677 enterprises had registered in the Manufacturing category, while 865,058 businesses had registered in the Service sector. During the 2020-21 fiscal year, digital transactions increased by 92.02 percent in terms of value and 90.19 percent in terms of number. More than 8000 goods are produced by MSMEs. This includes a wide range of goods, from classic to advance (in terms of high-tech items). India's Coir Industry is the world's largest coir producer under the MSME sector. It produces more than 80% of the total Coir Fiber produced in the globe. It involves a wide spectrum of people, including individuals, cooperatives, manufacturers, and exporters.

2. Promotion to MSMEs will have significant impact on the entrepreneurial environment of the nation.

In recent years, the MSMEs sector has outpaced the industrial sector in terms of growth. According to Statistics Office (CSO), Ministry of Statistics and Programme Implementation, it has continuously grown at a pace of more than 10%. This industry not only creates a lot of jobs, but it also helps to maintain regional balance by bringing industrialization to rural and backward areas.

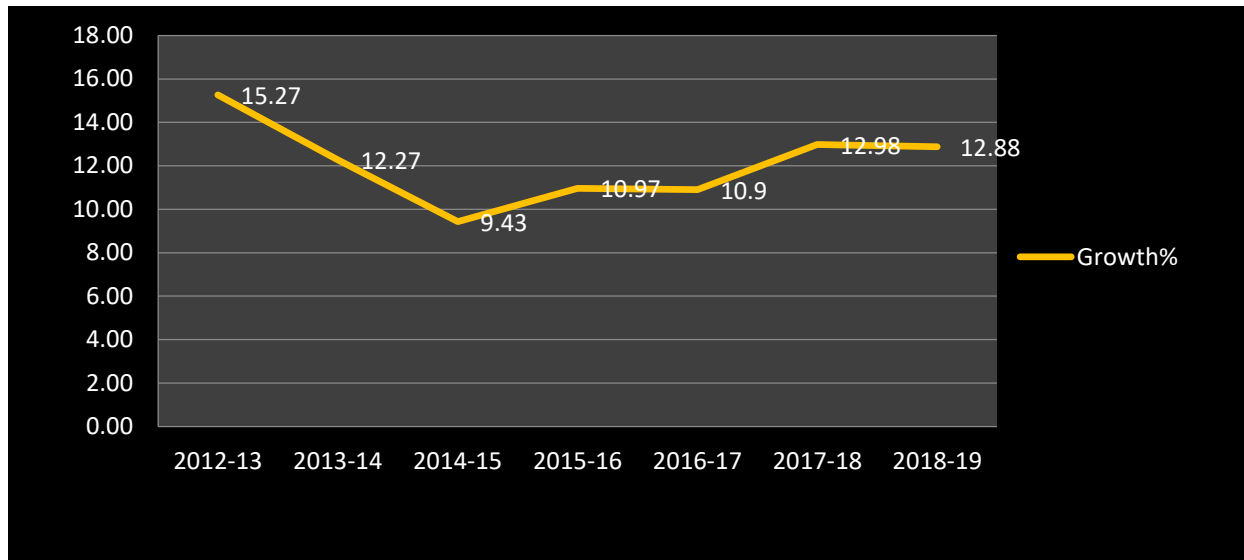


Figure 2

Contribution of MSMEs in Country's Growth % at Current Price

MSMEs provide jobs at a reduced cost of capital and assist the expansion of the system by acting as auxiliary units for larger businesses. Figure 2 depicts the growth of MSME sector during last 10 years. The number of MSMEs has been touching the heights from 1 million to 63 millions. This has been possible only because of the government and financial institutions' support. MSMEs have coordinated with related ministries, state governments, and stakeholders to develop rural areas. There are approximately 6.3 crore (or 63 millions) MSMEs in India as of October 21, 2021, according to the MSME Ministry data.

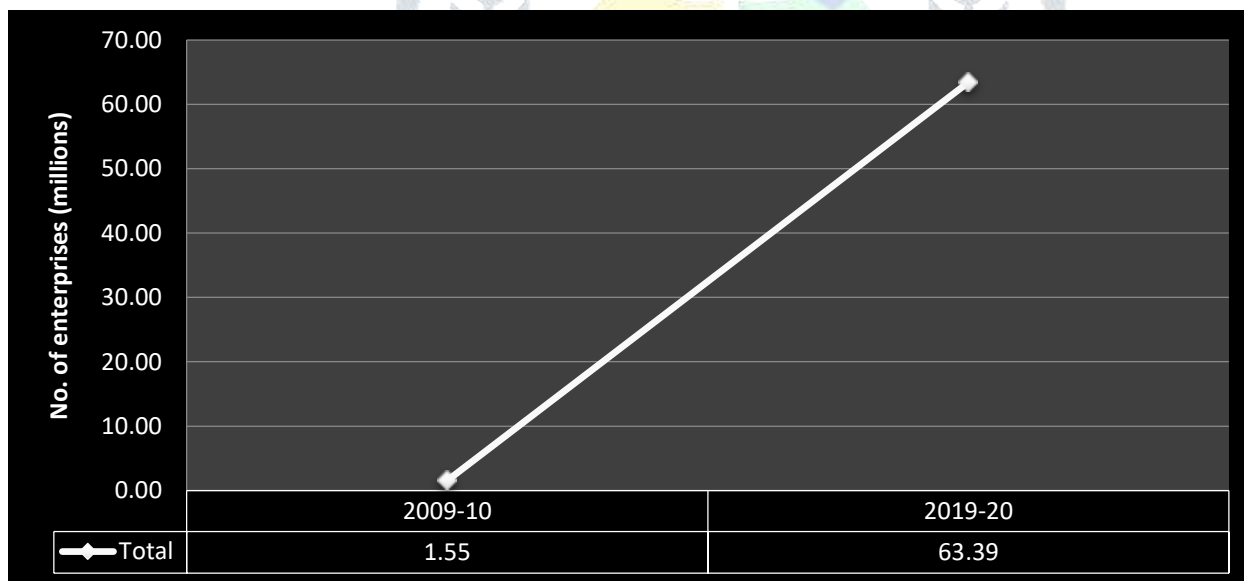


Figure 3

Total Number of micro, small and medium enterprises (in millions) across India

Reviewing the data individually for rural and urban region in Figure 2, it is observed that in rural India, the numbers of enterprises are approximately 32 million of Micro and that of Small are 80 thousands whereas in urban areas, the number is comparatively low for the year 2020.

3. MSMEs have significant contribution in the GDP.

According to data given by the MSME Ministry on May 16, 2021, India has roughly 6.3 crore MSMEs, which contribute approximately 29 percent of the country's GDP through national and international commerce. Nearly half of the country's exports come from this sector. According to the 73rd round of the national sample survey (2015-16), the MSME sector provided roughly 11.10 crore jobs, with 3.6 crore in manufacturing, 3.9 crore in commerce, and 3.7 crore in other services.

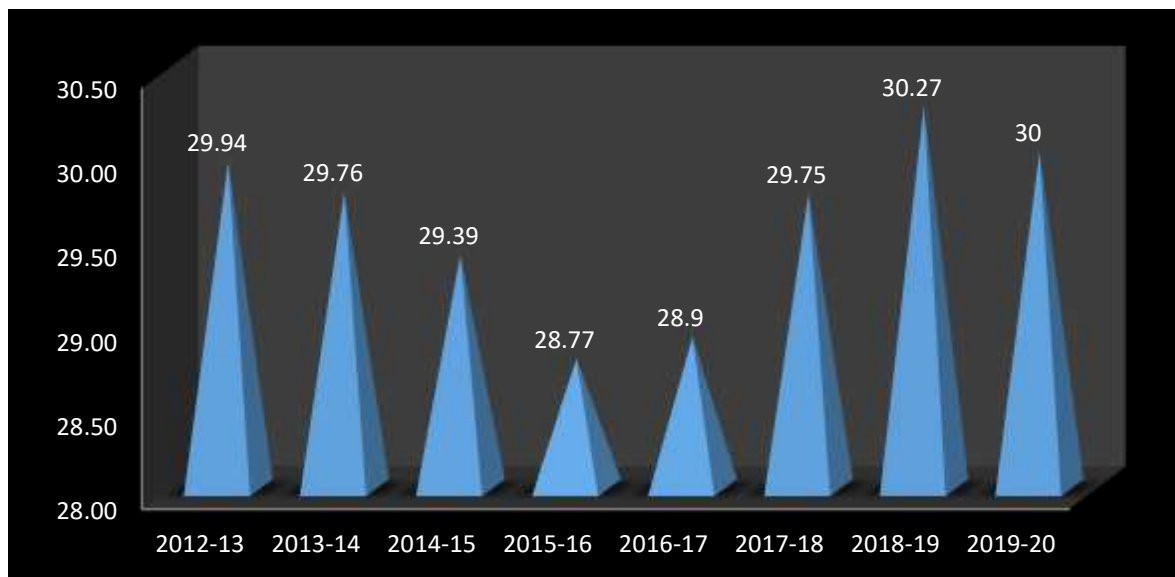


Figure 4 Contribution of MSMEs in Country's GDP at Current Price

As per the information received from Central Statistics Office, Ministry of Statistics & PI, share of MSME Gross Value Added (GVA) in All India Gross Domestic Product at current prices (2011-12) for the year 2018-19 and 2019-20 were 30.6% and 30.0% respectively. The share of the MSME manufacturing in All India manufacturing gross value output during the year 2018-19 and 2019-20 were 33.5% and 36.9% respectively. According to data from the Directorate General of Commercial Intelligence and Statistics, defined MSME related products accounted for 49.8 and 49.5 percent of total India exports in 2019-20 and 2020-21, respectively.

State-wise distribution of estimated MSMEs

MSMEs are primarily concentrated in India's top 10 states. These ten states account for about 93 percent of all businesses as per the MSMEs Annual Report 2019-20. The distribution of estimated firms in the top 10 states is depicted in Figure 1. It can be seen that Uttar Pradesh has the highest estimated number of MSMEs, accounting for 14.20 percent of all MSMEs in the country. With a 14 percent stake, West Bengal is on second. The top 10 states collectively accounted for 74 percent of the country's total estimated number of MSMEs.

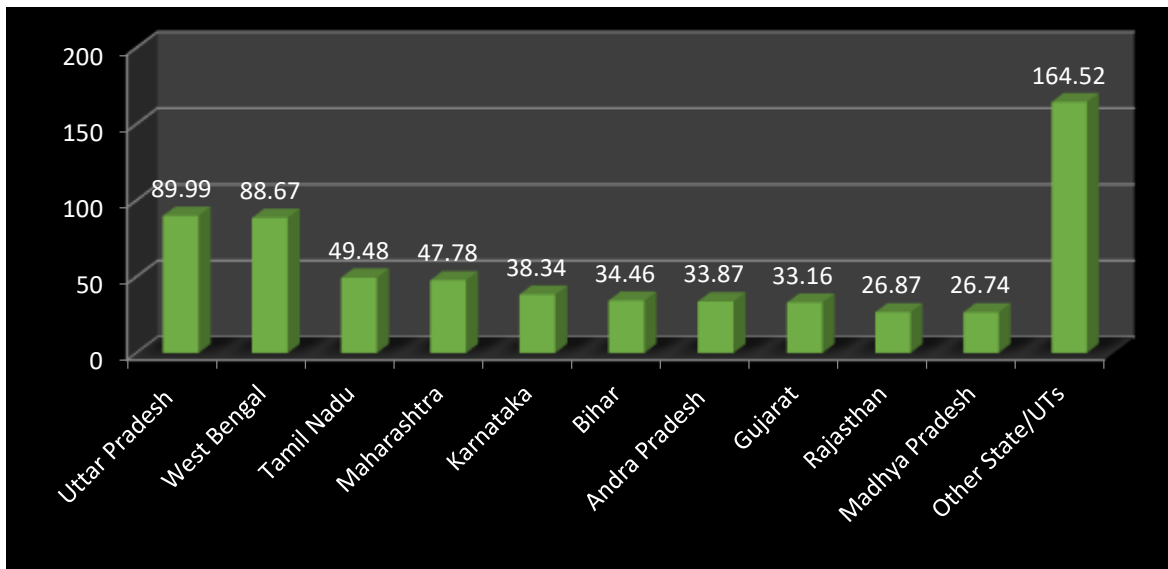


Figure 5 Top 10 State-wise Distribution of enterprises

4. Impact of Covid-19 Pandemic on MSMEs

Because of its size, scope of operations, and financial resources, the MSMEs sector was one of the most affected during the epidemic. According to studies and surveys, the national lockdown enforced in April 2020 had an adverse impact on nearly 95% of businesses, and 70% of businesses were impacted until August 2020. According to statistics, about 40% of enterprises were still disrupted till the end of February 2021, even after continuous unlocking. Market access, overall productivity, and gaining access to more funds are the three major challenges that MSMEs face. In 2021, lockout resulted in an average 11 percent drop in business volume for Indian MSMEs, compared to a 46 percent drop during the nationwide lockdown in 2020.

From March to May 2020, the export sector's textile manufacturing firms suffered a loss of about Rs. 150 crore. In the worldwide market, the loss of India's leather industries has been estimated at Rs. 11,210 crore. The All India Manufacturers Organization performed a survey on MSMEs and found that self-employed MSME units, which account for 35 percent of the MSMEs sector, do not have any prospects for recovery and have already begun winding down their operations.

Those countries that place a greater emphasis on the Entrepreneurship Development Program will see a greater increase in MSME growth. With all of these facts and data in mind, it is clear that the rise of SMEs is essential for India to achieve its goal of being a \$5 trillion economy by 2025.

Above all, the uniqueness of India is different states having different people following different religions like Hinduism, Jainism, Muslim, Sikhs, Christians etc. speaking different languages over 18 and different cultures all live together in peace, harmony, happiness and respect for each other. The magic mantra “Unity is Diversity” is so unique, is not prevailing anywhere in the world except our India. Let us make India, number one in industrial revolution growth and success and lead the rest of other nations on this front also.

5. Role of Business Associations and Institutions in establishment of MSMEs and promotion of Entrepreneurial Environment.

The MSME sector is a breeding ground of Entrepreneurship, fuelled by creativity and innovation. The role of various government and non-government institutions associations and bodies becomes inevitable and crucial in facilitating such enterprises. The various government and non-government institutions such as National Institute for Entrepreneurship and Small Business Development (NIESBUD), Entrepreneurship Development Institute of India (EDII), Rural Self-Employment Training Institute (RSETI) and many more along with business associations such as FICCI, CII, ASSOCHAM etc. need to work closely with the stakeholders of the sector in order make these enterprises overcome the challenges faced by them. The MSME sector in India is highly heterogeneous in terms of the size of the Enterprises, variety of products and services produced and the levels of technology employed. In order to strengthen the MSMEs the institutions can play a catalytic role by imparting skilled training to make the workforce more competent and acquainted with the modern day manufacturing technology along with extending subsidised institutional finance to the youth to be job provider instead of job seeker while the business associations need to play an active role in dissemination of information and educate these budding entrepreneurs about the trend, sectorial knowledge and skills sets required by organising various capacity building programmes across the nation. These bodies need to play an active role as an aggregator in developing capabilities specific to MSMEs and connecting them with mentors, incubators and accelerators.

Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into policy making and programme implementation. The business associations have a vital role deliberating on the key challenges of MSMEs and propose probable suggestions and recommendations for government. The present time is rife for Government and industry to act in consort to enhance the sector's attractiveness to global capital. We need to create an ecosystem that helps build and reinforce future-ready MSMEs towards which the institutions have a role in extending cutting-edge management expertise and technological know-how which in turn will boost the productivity level, branding and supply-chain efficiencies along with creating employment opportunities while on the other hand the business associations will strengthen these enterprises to leverage their financial and technological capabilities to compete with their global counterparts.

Conclusion:

The MSMEs of any nation are also classified as its growth engines, which not only makes the economy self-reliant but also gets to its credit favorable balance of payment by reduction in imports and promoting its exports. In Indian context the correlation between the performances of MSMEs with relation to economy has never been aligned. It is very pertinent to note that the MSME sector which was neglected in early 2000 was

extended its much deserved dues post 2010. The impressive contribution made by the sector to the nation's economic growth in the past decade has proven the fact that the sector not only has potential to grow but also serve as facilitator for big business houses. Indian economy which is a clear case of leap-frogging, wherein there is dearth of manufacturing units can be converted in abundance of such manufacturing units by providing impetus to this sector. The sector has also proven its potential during the tough times of COVID-19 pandemic and making the nation self-reliant in manufacturing PPE Kits, medicines and various other equipment's.

On account of significant contribution made by the MSME sector in the nations GDP and its stimuli to the various government policies framed towards promotion of the sector, it can be concluded that the more emphasis shall be given to help the units of this sector sustain the competition posed by their contemporary big business houses. Resources like finance, quality raw material at reasonable prices and availability of skilled manpower still pose as key challenge to the units of this sector. The growth of the sector will not only make the nation self-reliant but will also help in job creation, where in the role of job-seeker youth of the nation will be extended to be as job-provider, boosting the entrepreneurial environment of the nation.

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