

Economic Reforms and Micro, Small and Medium Enterprises

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Abstract: Micro, Small & Medium enterprises (MSMEs) have played a crucial role in the overall economic development of every developing economy in the world. In India, MSMEs have helped in creating a favorable environment of growth by serving as ancillary units to large scale industries. They not only create huge employment opportunities for the public but also address other challenges faced by the economy like poverty and removing regional imbalances. Keeping in view the crucial role of MSMEs in our economy, the present paper is an attempt to analyze the definition of MSMEs, the role and performance of MSMEs in Indian economy and government policies towards MSMEs as well as the various challenges and opportunities associated with MSMEs in India. The study reveals that over a period of time notable growth has been shown by the MSME sector which has been a leading contributor to export, employment and Gross domestic product in India. Therefore, some sincere action plan and their proper implementation is must for the encouragement of the MSMEs in the Indian economy.

INTRODUCTION

MSMEs have a crucial role to play in the development of the Indian economy along with ensuring a fair, equitable and employment friendly growth.

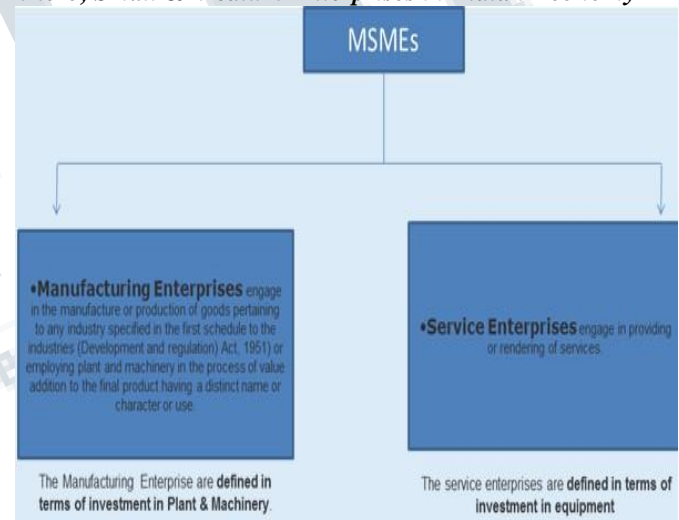
Being the second largest employment-generator in India after agriculture, they are a key source for various skilled and unskilled citizens of the country. Even our then PM Dr. Manmohan Singh stated that “the key to our success in employment lies in the success of manufacturing in the small scale sector” (Selvaraj, 2005).

MSMEs have contributed significantly to the future growth of the Indian economy. The development of this sector lies in the hands of the government as the development of industries requires capital.

In a country like India where capital is limited and unemployment is high, growth of MSMEs is essential to achieve balanced economic growth. The key challenge here for the government is to ensure that penetration of MSMEs not just at the urban level but also semi-urban and rural areas.

For the purpose of this study, secondary data from various sources including issues of Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI) respectively have been used.

Micro, Small & Medium Enterprises in Indian Economy



As per the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, MSMEs can be classified as follows:

According to the MSME Development Act, 2006, the limit for investment in plant and machinery / equipment for manufacturing / service enterprises are as follows:

| Manufacturing Sector | |
|----------------------|---|
| Enterprises | Investment in plant & machinery |
| Micro Enterprises | Does not exceed twenty five lakh rupees |
| Small Enterprises | More than twenty five lakh rupees but does not exceed five crore rupees |

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| Medium Enterprises | More than five crore rupees but does not exceed ten crore rupees |
|--------------------|--|

| Service Sector | |
|--------------------|---|
| Enterprises | Investment in equipments |
| Micro Enterprises | Does not exceed ten lakh rupees: |
| Small Enterprises | More than ten lakh rupees but does not exceed two crore rupees |
| Medium Enterprises | More than two crore rupees but does not exceed five core rupees |

Growth and Performance of the Indian MSMEs

In spite of the stiff competition from the large, organized sector and the lack of government attention and support to MSMEs, they have managed to achieve a high growth rate over the years.

The number of functional and non-functional registered MSMEs in the country are 15,63,974 and 4,96,355 respectively. The size of the registered MSME sector in terms of their number is provisionally estimated to be 1552.5 thousand in the country. The break-up of this size in terms of micro, small and medium enterprises was 95.05%, 4.74% and 0.21% respectively. This comprises of 66.67% manufacturing enterprises and 33.33% services enterprises. (As per 4th All India Census of MSME conducted by the Ministry of MSME)

The list of 20 most exported MSME product groups is as follow:

| Sr. No. | Products |
|---------|--|
| 1 | Pearls, precious stones, metals, coins, etc |
| 2 | Electrical, electronic equipment |
| 3 | Pharmaceutical products |
| 4 | Articles of apparel, accessories, not knit or crochet |
| 5 | Articles of iron or steel |
| 6 | Machinery, boilers, etc |
| 7 | Articles of apparel, accessories, knit or crochet |
| 8 | Organic chemicals |
| 9 | Other made textile articles, sets, worn clothing etc |
| 10 | Vehicles other than railway, tramway |
| 11 | Plastics and articles thereof |
| 12 | Rubber and articles thereof |
| 13 | Footwear, gaiters and the like, parts thereof |
| 14 | Articles of leather, animal gut, harness, travel goods |
| 15 | Tanning, dyeing extracts, tannins, derivatives, pigments etc |
| 16 | Aircraft & spacecraft parts |
| 17 | Essential oils, perfumes, cosmetics, toiletries |
| 18 | Stone, plaster, cement, asbestos, mica, etc articles |
| 19 | Carpets and other textile floor coverings |

The government has been taking various initiatives and programmes in this direction to ensure the trend of exports seen an upward trend. Minister of State (Independent Charge) for Micro, Small and Medium Enterprises, Shri K. H. Muniyappa shared this information in a written reply to a question in the Lok Sabha. He also mentioned some schemes/programmes undertaken by the government which included National Manufacturing Competitiveness Programme (NMCP); Credit Guarantee Scheme; Credit Linked Capital subsidy Scheme; Cluster Development Programme; Market Development Assistance Scheme; and Vendor Development Programme for Ancillarisation.

Problems Faced by MSMEs in Indian Economy

MSMEs face various issues and challenges which hinder the growth of the sector as a whole. The government plays a very important role here in ensuring the framing of right policies along with its successful implementation. The sector faces its own share of issues and challenges including:

- The lack of finance remains the biggest challenge for the sector. Firstly, there is lack of information available through organized sources to help access the limited available financial resources. The problem of lack of access of secondary markets is made worse due to the absence of any Venture Capitalists for this sector. The need for ready availability of affordable credit is extremely high.
- Due to the lack of effective marketing initiatives, the true potential of the products from this sector is never realized. The lack of funds to advertise the products and incur additional expenditure is a big challenge.
- Corruption and red tapism lead to procedural delays eventually leading to delayed entry in markets and lost business.
- Increased competition from global markets has caused enough damage to these industries who don't have access to latest technologies

These enterprises face various challenges and thus their overall growth is hampered.

Government Initiatives

A sector which is projected to be worth \$5 trillion economy by 2025, MSMEs have only shown a positive performance trend. Creation of jobs, contribution to GDP and exports among other aspects, this sector has only helped a growing economy like India. The government realizes this and has undertaken various initiatives in this regard: Some of the key initiatives include:

International Journal of Science, Engineering and Management (IJSEM)**Vol 3, Issue 5, May 2018****•MSMED Act, 2006**

One of the key initiatives by the Government has been the enactment of Micro, Small and Medium Enterprises Development Act, 2006 on 2nd, October'06. The main aim of this Act is to facilitate the promotion and development and enhance the competitiveness of MSMEs. The Act provided for the inclusion of services sector in the definition of Micro, Small and Medium Enterprises, apart from extending the scope to Medium Enterprises.

•Credit Guarantee Scheme

One of the biggest challenges MSMEs face is the availability of funds. Some MSMEs are not able to pledge collateral security while applying for these loans to set up their businesses or for further expansion. The government of India set up a Credit Guarantee Scheme to help such businesses.

•Approval for Creation of 'Indian Enterprise Development Service' (IEDS)

The government has sanctioned the setting up of 'Indian Enterprise Development Service' (IEDS) with its headquarters in Delhi. This new cadre shall complement the vision of initiatives like "Startup India", "Make in India".

•Launched National SC/ST Hub

A National level 'SC/ST Hub' has been launched in Ludhiana which shall be provided assistance by the NSIC, Delhi. A budget of Rs.490 crores has been allocated for 2016-20. This hub will not only provide financial support but also help in monitoring and understanding the MSME market better.

contribute significantly to the overall growth of the Indian economy.

CONCLUSION & POLICY IMPLICATIONS

In a nutshell, we can state that the MSMEs have played a crucial role in the development of the Indian economy post the trade reforms in 1991. Not only has the sector contributed to the GDP, but at the same time has played a critical role in creation of jobs and exports. This sector ranks second to agriculture when it comes to employment generation of jobs. Due to advancement in technology in the agriculture sector along with a slow growth, there has a slowdown in the creation of jobs. This puts a lot of pressure on the MSME sector to provide employment to the citizens. As we can see in the findings above that the MSME Sector shows immense potential and so far has been positively contributing to the growth. The government, however, has a crucial role to play here. The sector in order to continue on the path of growth needs to ensure efficiency and effectiveness in terms of resource allocation and availability of sufficient funds. The various problems that are being faced by the sector need to be addressed in terms of government initiatives. Successful implementation of these initiatives will not only boost the sector but at the same time