



# “MSMEs – a mainstay for the developing economy”

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## MSMES - A MAINSTAY FOR THE DEVELOPING ECONOMY

### Abstract

This research paper aims to understand all the factors preventing micro, small and medium enterprises from growing despite their great potential, the possible existence of any internal or domestic differences in the way the entrepreneurs from various Indian communities approach business. The question remains whether there are any external or domestic differences in their entrepreneurial orientations. The work also presents some policy-based suggestions to solve such issues that hinder the magnification potential of MSME units. The MSME units offer jobs to more than seven people. However, they do not grow because of many difficulties discussed in this paper. Due to the lack of opportunities, MSMEs are unable to attract foreign investments. MSMEs can stop the migration of young people coming from rural areas to urban cities if MSMEs get developed. MSMEs represent a high-priority sector of the growing and developing economy. Therefore, we need to focus on this sector to transform developing India into a developed country. This paper is an attempt to analyze the reasons for the difficulties of MSMEs.

### Keywords

MSMEs, GDP, opportunities, magnification, economy, employment, potential

### JEL Classification

A1, D00, D20

Маніша Каккар (Індія), Аміт Кумар (Індія)

## ММСР - ОПОРА ДЛЯ ЕКОНОМІКИ, ЩО РОЗВИВАЄТЬСЯ

### Анотація

Цей дослідницький рукопис має на меті з'ясувати, чи є якісь внутрішні або внутрішньополітичні відмінності у підході підприємців з різних громад Індії до бізнесу? Чи є якісь зовнішньо- або внутрішньополітичні відмінності в їх підприємницьких орієнтаціях. Він також представляє деякі пропозиції, засновані на політиці, щодо вирішення таких питань, що перешкоджають потенціалу зростання підрозділів мікро-, малих та середніх підприємств (ММСР). Підрозділи ММСР дають роботу більш ніж 7 особам. Однак вони не зростають через багато труднощів, про які йдеться в цій роботі. Через відсутність можливостей ММСР не в змозі залучити іноземні інвестиції. ММСР можуть зупинити міграцію сільської молоді до великих міст, якщо їх розвивати. ММСР є найбільш важливою галуззю зростання та розвитку економіки. Тому нам потрібно зосередитись на цьому секторі, щоб перетворити Індію з країни, що розвивається у розвинуту країну. Ця стаття є спробою проаналізувати причини труднощів ММСР.

### Ключові слова

ММСР, проблеми, можливості, зростання, економіка, зайнятість, потенціал

### Класифікація JEL

A1, D00, D20

## INTRODUCTION

For many years, micro, small and medium enterprises (MSMEs) have been an emerging industry in India with the utilization of bounded resources and insubstantial supply. MSMEs are widely called the cornerstone of the Indian economy. According to the official online portal of MSMEs, this sphere has a substantial employment accoutering sector in India with employing more than 600 thousand people in India. They often need to keep stride with expeditious amelioration tech-

nologies and face the countenance of becoming technologically obsolete. They also have to covenant with very high credit and are usually unable to perpetuate product standards and quality. MSMEs also face the problems of safeguarding their intellectual property. The inadequate availability of skilled workers represents another issue. Finally, studies on MSMEs have stunted the etymology of income and countenance the magnification predicament. This situation provokes a challenge for the financing of MSMEs due to the meagerness of cognizance and funding by the government. There is a deprivation of schemes for MSMEs.

## 1. LITERATURE REVIEW

### 1.1. Doctoral thesis, books and periodicals

Agarwal (1987) stated that MSMEs did not obtain sufficient loans from banks to fulfill their financial obligations. Hence, banking institutions should understand the need for finance and provide financial support to SSIs to enable them to overcome their financial problems.

Rudra Murthy (1995) highlighted that there was a delay in the application of loan and sanction of the loan, and it had a cascading effect on running an SSI unit. Also, a rise in the price of raw materials and labor was mentioned. In the scientist's opinion, the Government has to take the lead in supplying raw materials at a lower price and provide technical and marketing assistance to SSIs.

Pamecha (2013) studied MSMEs and their benefits to the rural and cottage industries. The work stated that the MSME act confers the following advantages to MSMEs: timely credit (Section 10), reservation policies to the manufacturing sector, procurement preference policies (Section 11), and measures for promotion and development (Sections 9, 12, 13, 14), etc.

Sarika's publication (2014) is a step to focus on globalization and its implications on the manufacturing, productivity, and competitiveness of MSMEs. Globalization has made changes in the process of production, diversification of products as per discerning customers with high purchasing power and more differentiated taste, high quality, and higher value for money. In this context, the book provides information, policies, and the Government's program to promote MSMEs in the globalization and liberalization of world economies.

A technical paper by Dogra (2014) pointed out that for five years, the bank credit to MSMEs had been increasing year by year as per the RBI's statistical report. The work showed 30% of annual magnification in the financial year 2013. Despite this, more than 92% of MSMEs in India were yet to get access to finance from institutional sources. The author suggested that timely credit at a competitive cost, rising working capital requirements with elongation of credit period would build trust and instill confidence among lenders and borrowers within and outside India.

Azad (2014) mentioned that most MSMEs have still encountered numerous challenges, especially during their initial days. A common problem for most of them is the lack of capital and financial support from organized lending institutions. The researcher also pointed out the adverse effect on the cost volume of funds and financial statements of SME companies exerted by the highlighted problem.

### 1.2. Articles published in national journals

A research article by Laha (2014) is an effort to shed light on inter-state variations in access to credit to promote entrepreneurial activity in India. The study highlights the lending practices of banks to extend their services to unbanked areas, and priority sector lending is the priority area in supplying finance to MSMEs.

Srinivas (2014) pointed out that the Government is continuously supporting MSMEs for their magnification and development. At present, bank lending to MSMEs is one of the traditional and trusted ways to finance business. In this context, Canara Bank plays a significant role in providing finance to MSMEs that is commendable and worthwhile.

Ramadevi and Reddy (2014) highlight the role of MSMEs in the development of the national economy, and of no small importance here is continuous entrepreneurial development. The article addresses the issues relating to MSMEs. Intending to utilize the solution for these issues effectively, the paper suggests encouraging a large number of young entrepreneurs to participate in the Nation Building Task. This is an area of significant concern in India's development agenda.

Uma (2013) states that industrialization is an effective tool for solving the problems of economic and social progress in developing countries of the world. This could be achieved through accelerate industrial magnification and helps in the development of the economy.

Garg and Garg (2014) state that MSMEs with lower investment prove to be the second largest employment provider, next to the agriculture sector. They occupy a significant position in the Indian economy. This article is focused on the significant magnification of MSMEs over a period of time and their major contribution, employment, and export in the Indian economy. The authors conclude that encouragement to MSMEs by preparing a proper business plan of action with effective implementation is necessary to take proper care of the Indian economy.

Chandraiah, Vani's study (2014) reveals that the highest constituents in the whole industrial sector are MSMEs. This sector not only meets economic objectives like contributions, industrial output, and exports but also represents a social objective for millions of people across the country. The MSM sector in India acts as a power and spirit of economic magnification in the 21st century. This paper analyzes the definition of MSMEs as per MSME Act 2006. It also addresses the performance and Government policies towards the promotion and development of MSMEs.

Jaswal (2014) declares that many MSMEs face constraints which emerge in their day to day business. The most critical problems are competitions, impassable infrastructure facilities, and access to finance. MSMEs also face the issues of acquiring assets like plant and machinery, equipment, raw materials, and others due to insufficient funding.

Natha and Verma (2014) reveal that entrepreneurship is considered a significant factor for the development of the economy. This paper suggests that to strengthen the economy through entrepreneurial development, the Government should undertake several measures regarding combatting corruption, easy accessibility of finance, less procedure and regulations in financial schemes, and develop infrastructure.

A technical paper by Nishanth and Zakkaria (2014) highlights various constraints of MSMEs such as insufficient funding, issues, and challenges in marketing and distributions of goods and services, a conventional method of productions, scarcity in supply of raw materials. These constraints differ from one sector to another. The barriers can be reduced through initiating action by the Government and commercial banks in supplying finance and other facilities.

### 1.3. Articles published in international journals

Zulkifli (2010) points out that SMEs contribute towards the economic development and stability of a nation. The article focuses on the role played by the National SME Development Council (NSDC) in assisting SMEs through providing financial support in the form of soft loans, equity loans, guarantee schemes, tax incentive schemes, and venture capital. The Council acts as an apex body to formulate strategic policies, guidelines and coordinate for the development of SMEs.

Jahanshahi, Nawaser, Khaksar, and Kamalian (2011) envisaged the contribution made to the country's employment generation by MSMEs. The authors emphasized the Government's role in the effective implementation of strategic policies by using an integrated policy approach for the promotion and development of MSMEs.

Steen, Pinar, and Hooming (2013) point out that in developing countries, around 90% of the formal and informal MSMEs face the challenge of accessing finance and overdraft facilities from banks and financial institutions.

Given this, the study highlights the need for intervening both policymakers and the private sector at different levels to try to encourage good banking services, higher deposit rates, and greater accessibility of capital for MSMEs.

## 2. AIMS

The main aims of this research are as follows: to investigate how MSMEs work in India and their contributions to GDP, to interpret the suggestions for MSMEs in India, to identify the prospects for MSMEs in the magnification and development of India, to determine and investigate the challenges and problems faced by MSMEs.

## 3. METHODS

This study relies on secondary sources and secondary data collected from the relevant publications issued by the Ministry of Micro, Small and Medium Enterprises (MSMEs), India, various articles and books, etc.

## 4. GENERALIZATION OF THE MAIN STATEMENTS

India is known for its unique cultural dimensions, which may have an impact on the functioning of societies, groups, individuals, and businesses. Cultural practices and people's aspirations are influenced by religion. Values are formed based on interacts. MSMEs represent an Indian perspective.

MSMEs offer a wide range of products and varieties. These industries also contribute to large-scale production. They act as a complement to the large-scale industry.

Table 1 provides MSMEs classification based on their capital invested.

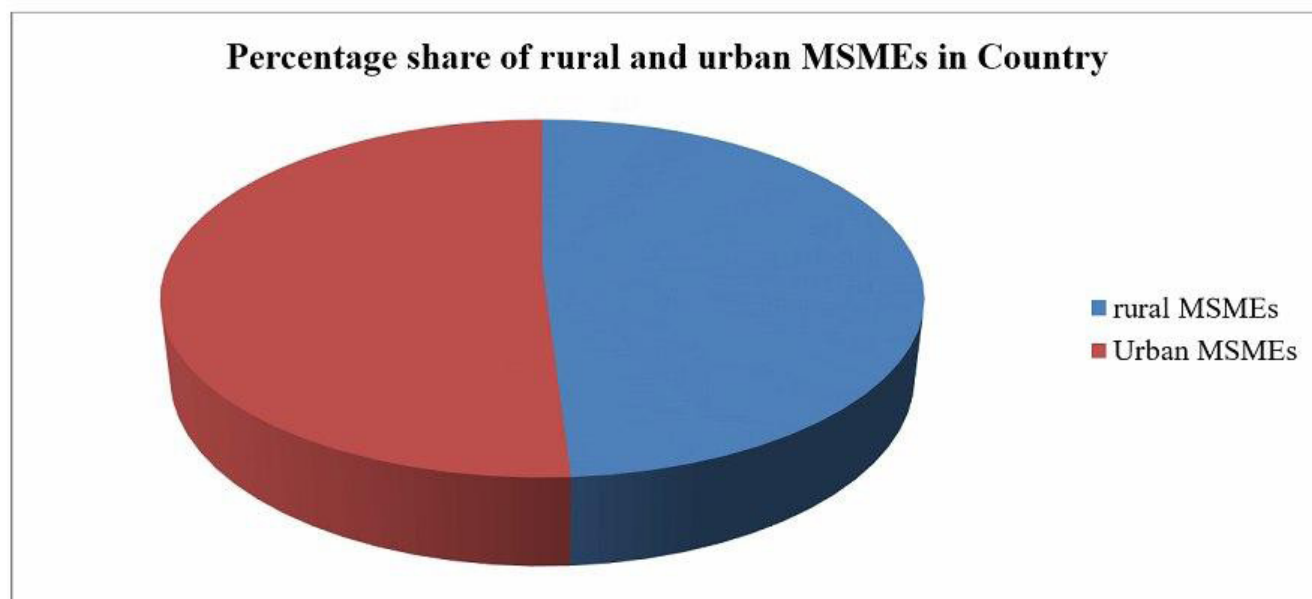
**Table 1.** MSMEs classification based on their capital invested

Source: MSME Annual report.

Enterprises	Micro-small	Small	Medium	Remarks
Manufacturing sector	Up to Rs. 25 Lakh	Above Rs. 25 lakh up to Rs. 5 crore	Above Rs. 5 crore up to Rs. 10 crore	Investment in plant and machinery
Service sector	Up to Rs. 10 Lakh	Above Rs. 10 lakhs up to Rs. 2 crore	Above Rs. 2 crore up to Rs. 5 crore	Investment in equipment

India's investment in MSMEs has shown an increasing trend over the years.

Figure 1 depicts the distribution of rural and urban MSMEs in a percentage share throughout the country. The share of rural MSMEs is 49% and of urban MSMEs – 51%.



Source: MSME Annual Report (State-wise estimated number of MSMEs).

**Figure 1.** A percentage share of rural and urban MSMEs in throughout the country

Table 2 shows figures for the total share of MSMEs in the economy with regard to GDP. As per 2011 to 2017, the percentage share is continuously declining every year.

**Table 2.** Total share of MSMEs in the economy with regard to GDP

Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation.

Figures in Rs. Crores adjusted for FISIM' at current prices						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (%)
2011-2012	2.622,574	–	8.106,946	32.35	8.736,329	30.00
2012-2013	3.020,528	15.17	9.202,692	32.82	9.944,013	30.40
2013-2014	3.389,922	12.23	10.363,153	32.71	11.233,522	30.20
2014-2015	3.704,956	9.29	11.504,279	32.21	12.467,959	29.70
2015-2016	4.025,595	8.65	12.566,646	32.03	13.764,037	29.20
2016-2017	4.405,753	9.44	13.841,591	31.83	15.253,714	28.90

Table 3 shows the distribution of enterprises in rural and urban areas.

**Table 3.** Distribution of enterprises in rural and urban areas

Source: MSME Annual Report (State-wise estimated number of MSMEs).

Sector	Micro	Small	Medium	Total	Share %
Rural	324.09	0.78	0.01	324.88	51
Urban	306.43	2.53	0.04	309.00	49
All	630.52	3.31	0.05	633.88	100

## 5. DISCUSSION

Despite the vital role played by MSMEs in industrial development, MSMEs meet various challenges. They include the following:

1. Shortage of adequate capital and credit.

One of the biggest challenges, which presents the magnification of MSMEs in our country, is inadequate capital and credit facilities. There is no easy access to loans in the banks. Many banks identify this situation as a crucial reason for the industrial exhaustion of this sector. The position of affairs is complicated with the difficulties in collaterals caused by the banks as well as cumbersome sanction procedures and delays in providing loans.

2. Shortage of infrastructural facilities.

There are many shortcomings in the infrastructure and inadequate support facilities in addition to insufficient access to the main facilities like water, power supply, road/rail connectivity, etc. This affects the MSME sector adversely.

3. Insufficient access and marketing linkages.

Due to necessitous marketing facilities and no Government support, the shortage of adequate marketing infrastructure/network facilities continues to be a great challenge for MSMEs to sell their products in the market.

4. Shortage of skilled workers.

The shortage of skilled workforce at opportunity cost is a challenge for MSMEs in our country. This occurs due to a lack of training and development.

5. Shortage of upgraded technology.

Most industries require advanced technologies for their operations in productions, whereas Indian MSMEs act in the conditions of low technology development. This results in low productivity, and they fail to face competition. MSMEs should focus on enhancing productivity and quality as well as building new technology for overall transformation.

## 6. SUGGESTIONS

Although the performance has increased over time, still various positions should be followed. Let us consider some suggestions for MSMEs:

1. Easy financial assistance.

Many industries require the latest technologies in production. MSMEs face a shortage of technology, which results in declining productivity. They fail to face competition. MSMEs should focus on increasing production and the quality of products.

2. Providing infrastructural and support facilities.

The infrastructure facilities, like power, the supply of raw material, road, electricity, rail, etc., do not reach a sufficient level. These problems require solving. Alternative sources of energy should be applied. The overall development of enterprises is necessary.

3. Creation of passable marketing.

The production activity should be increased. This will create a better market. The Government of India should develop policies regarding MSMEs.

4. Skill development and capacity building.

Some substantial steps are required for skill development. Various training institutes may be opened for the training of entrepreneurs and workers that engage them in different activities.

5. Access to modern tools and technology.

MSMEs today need to adopt various quality parameters as per international standards. Technologies should be replaced and updated by the adoption of modern methods. The latest tools and technology for increased productivity and quality will provide a competitive market.

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## CONCLUSION

Over the years, MSMEs have achieved the highest significance by contributing to employment generation and rural industrialization. MSMEs possess enough potential in economic development like “Make in India”. This sector has given resilience to sustain itself on the strength and by infusion of new technologies, capital, and innovative marketing strategies.

Appropriate strategies should enter the ecosystem where these enterprises can access the benefits and are further capable of meeting the emerging challenges of a globally competitive order. We should focus more on these shortcomings as this is the most emerging sector of the developed economy.

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## AUTHORS CONTRIBUTIONS

Conceptualization: Manisha Kakkar.

Formal Analysis: Amit Kumar.

Methodology: Amit Kumar, Manisha Kakkar.

Resources: Manisha Kakkar.

Supervision: Amit Kumar.

Writing – original draft: Manisha Kakkar.

Writing – review & editing: Amit Kumar.

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