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Micro Small and Medium Enterprises

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ABSTRACT

The paper suggests that recent market reforms and government interventions have helped enterprises beat the competition which has consequently helped India with its economic growth, high foreign investment, reduced inflation, higher employment opportunities.

Keywords— MSME, COVID 19, Government, GDP Growth, MSME Cluster, Aatma Nirbhar Bharat, Reserve Bank of India

1. INTRODUCTION

Over the years, countries around the world have realized the importance of MSMEs for their invaluable contribution to socio-economic goals such as providing employment opportunities, GDP growth, economic growth, and support with exports and imports. Similarly, in India, MSMEs act as the backbone of the economy due to their whopping 8% contribution to the country's GDP, 45 percent to industrial products, and 40 percent to the country's exports. Moreover, the sector employs 60 million people in close to 28.5 million enterprises. Due to globalization, policy changes, cooperation from financial institutions, and government support, India is paying all the more attention to the growth of MSMEs which has created a pool of opportunities for the sector.

Unfortunately, there are still a lot of hurdles that hinder the growth of the sector such as demonetization, poor execution of GST, high-interest rates on loans, lack of upgraded technology, and the biggest problem of all – Covid 19 lockdown which has acted as an added burden on the MSMEs. An asurvey by thee AAll India Manufacturers Organisation (AIMO) depicts that out of the 75 million MSMEs which are functioning in India right now, nearly 25 percent will close if the virus is not controlled. As the sector is in great trouble, it becomes all the more important to study the impact of MSMEs on India's growth, the contribution of MSMEs to the GDP, how the government is currently helping the sector, and also the areas which are required to strengthen the sector to ensure its continued survival & success (Zanjurne, 2018).

2. MSMES AND THE INDIAN ECONOMY

"MSME Growth Driver of Indian Economy" published by CII and Resurgent India (2019) mentioned that over 1,00,000 MSMEs showcased a phenomenal growth of 13.9% increase in net jobs created in the MSME sector in the last four years. The report "Making Indian MSMEs globally competitive" published by KPMG (September 2019) said that the MSME sector is the driving force behind the economy of India with a network of sixty-three million entities. Further, it generates employment for about one million people, manufactures more than 7500 products, and has a share of around 40% of the country's total export.

Figures in Rs. Crores adjusted for FISIM at current prices						
Year	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	All India GDP	Share of MSME in All India GDP (in %)
2014-15	3658196	-	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

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

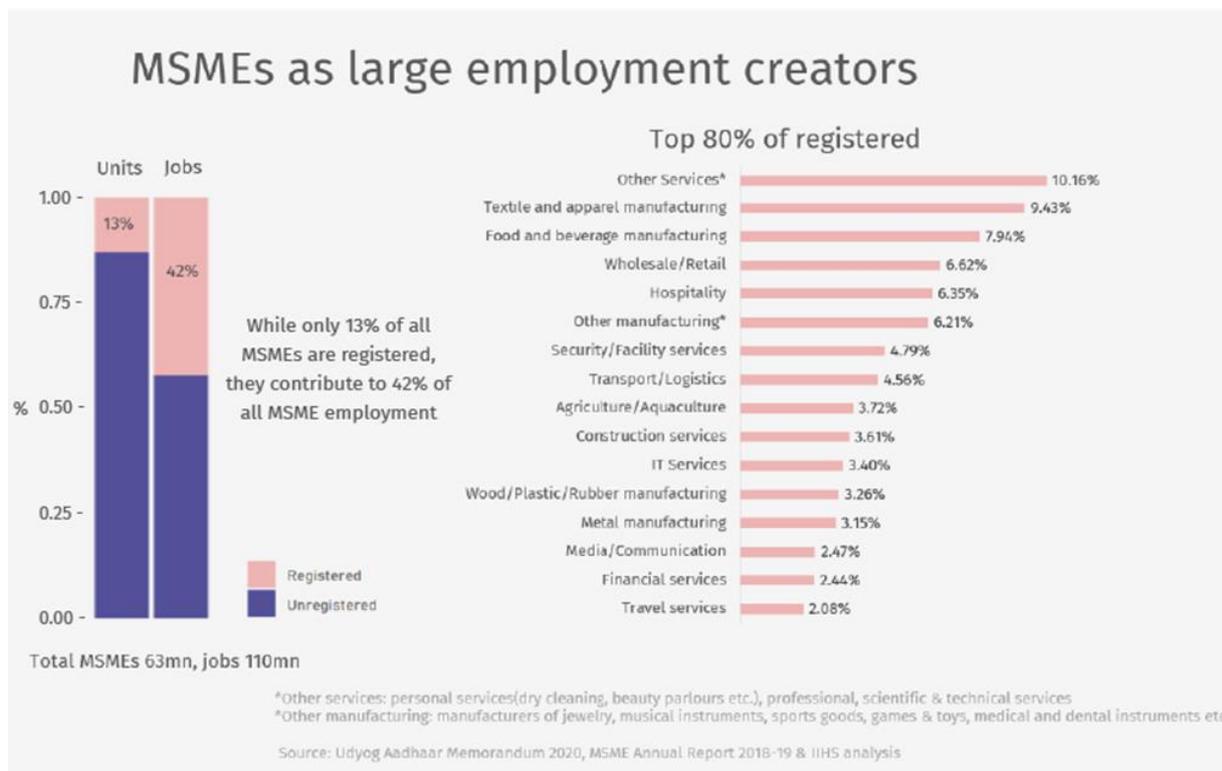
According to MSME Minister Nitin Gadkari, the sector is dominated by micro-enterprises which stood at Rs. 22.06 lakhs, followed by small scale which was Rs. 2.41 lakhs, and lastly medium size MSMEs contributing Rs. 10.99 lakhs.

The total registered enterprises in 2020		
Small MSME	Medium MSME	Large MSME
22.06 lakh	2.41 lakh	10.99 thousand

Out of the 633.88 MSMEs, 51.25% are located in rural areas and 48.75% belong to urban areas. The number of industries in rural areas is expected to increase due to the various initiatives being taken by the government. By creating an agro MSME category, the government is promoting entrepreneurship in backward areas which will work towards the development of respective villages. (KARTHIK, 2021).



2.1 Employment opportunities provided by MSMEs



The growth of MSMEs and employment opportunities go hand in hand. MSMEs have always played a significant role in economic advancements of developing countries and are usually referred as ‘drivers of economy’ as they have the power to promote innovation and creativity which directly gives a chance to budding entrepreneurs to explore their talents. Thus, it generates employment, reduces poverty, and promotes balanced regional growth and development.

As MSMEs require a low capital investment, they are able to create more employment opportunities than MNCs and other large scale organisations. (EIM business and policy research, 2011). In india, MSMEs is the second largest employer after the agriculture sector.

According to many researchers, MSMEs is one of the major contributors to employment generation and economic growth in both developed and developing countries. (Tenzin, 2014) says MSMEs has generated over 65 percent of total employment in

developed countries & 70 percent of the total employment in developing countries. For example, in European union MSMEs provided 30% employment. Similarly, In Saudi countries, MSME is considered a key solution to remove unemployment, generate wealth, reduce poverty and increase GDP. Thus, this sector is continuously helping countries fight the issue of unemployment and India should exploit the opportunities provided by MSME sector by investing in the same.

The role of MSMEs is significant in generating employment opportunities in our country and to make our country a self-reliant one. Till now 11 crore people have been provided jobs in this sector and the government aims to increase this number in the coming years. The effect of MSMEs in generating large-scale employment and contributing to the nation's GDP and exports can be observed by the efforts put in by the government in making more establishments register as MSMEs. After recognising this aspect of MSMEs, further simplification in registrations was announced by introducing a new portal called Udyam Registration, which proposes automatic integration with income tax and GST databases. This sector accounts for 95% of the industrial units, approximately 50% exports and provides employment to millions of people making it the largest source of employment after the agriculture sector (Tenzin, 2014).

2.2 Contribution to industrial production and export

It also accounts for 45 % of total industrial production, 40% of total exports and contributes very significantly to the GDP. The share of export of specified MSME-related products to All India exports during 2019-20 and 2020-21 was 49.8% and 49.5% respectively.

The government could continue to work toward the ease of doing business in India by streamlining regulations and processes and by issuing clear directives on future regulatory requirements. MSME firms often benefit heavily from industrial policies aimed at supporting scale per se or supporting the buildup of specific sectors and activities. It is estimated that in 2 year's time, MSMEs will contribute

2.3 MSME and Atma Nirbhar Bharat

According to revision of MSME definition on 13 th May, 2020		
Category	Investment	Turnover
Micro Enterprises	Rs. 1 crore	Rs. 5 crore
Small Enterprises	Rs. 10 crore	Rs. 50 crore
Medium Enterprises	Rs. 20 crore	Rs. 100 crore
According to revision of MSME definition for medium enterprises on 1 st June, 2020		
Category	Investment	Turnover
Medium Enterprises	Rs. 50 crores	Rs. 205 crores

On July 1, 2020, MSMEs were given new criteria under the scheme 'Atm Nirbhar Bharat'. To get the sector back on track, the prime minister revised the definition of MSMEs so that more enterprises can become a part of this sector and get the desired benefits which are associated with it. According to the table, the investment limit has increased and the distinction between services and manufacturing has been removed. (Pandey, 2020). Other benefits include:

- Government of India launched The Credit Guarantee Fund Scheme (CGS) to let MSMEs have collateral free loans from the banks.
- A payment which is due to MSMEs cannot exceed 45 days. Thus, providing protection against delayed payments.
- The scheme 'incubation' provides a platform to work with new ideas & designs as 75-80% of the project will be financed by the government if it is innovative and creative in nature.
- The rate of interest for the registered MSMEs are lower than other organizations so they also receive support from the financial institutions.

2.4 Market Size

The approximate number of MSMEs in India are about 6.3 crores. On May 16, 2021 the MSME Ministry data found out that the Udyam Registration portal registered 30,00,822 MSMEs. The prior method for Udyog Aadhar Memorandum (UAM) replaced this new method. 93% of 28 lakh MSMEs are registered, along with 1.78 lakh (6%) small enterprises and only 1% (24657) mid-sized enterprises. 29% of Indian GDP consists of the MSME sector through its national and international trade. The expected number of SMEs to set foot in the BSE & SME platform is less than 60 in 2021-22 to gather equity funds for their business needs. 16 SMEs were spotted by IPO-Initial public offering that entered the market and raised Rs 100 crore i.e., 13.74 million in USD in 2020. In June 2021 began a new collaboration of Bombay Stock Exchange (BSE) and Electronics and Computer Software Export Promotion Council (ESC) to spread awareness of importance of listing among startups and small businesses

Growth opportunities for MSMEs in different sectors:

- (a) Tele-communications:** Tele-communications sector is providing a growth rate of 10% for the MSMEs. Schemes like 'self-reliant India' have encouraged domestic manufacturing and will increase the use of telecom networking appliances. The increasing demand for mobile phones, will lead to low-cost manufacturing opening a wide array of opportunities for MSMEs.
- (b) Electronics:** Government has decided to create 500 MSMEs in the electronics sector which will further create 2.5 lakh job opportunities for India. As the Indian customer would want more of customised electronic products, they will move to

MSMEs to get their desired services. Areas such as nano-electronics and micro-electronics will add to the growth opportunities for MSMEs.

- (c) **Healthcare:** According to recent reports, the industry is all set to grow to INR 3 trillion mark by 2022 which will have a huge impact on MSMEs. As the requirement for surgical gloves, syringes, masks are increasing due to the global pandemic, people are looking for more affordable services. Hence, they are moving to MSMEs.
- (d) **Agriculture:** With the increasing demand for high quality & nutritious food, the competition in the food industry is increasing as MSMEs are able to provide more healthy options at an affordable rate. With consumers becoming more health conscious, the food & agriculture industry poses a lot of opportunities for MSMEs to exploit their 'healthy' customers.

The MSME sector has played a vital role in booming the growth worldwide. It has gained so much importance as each and every person is linked to this sector, this is backed up by the new aspiring programmes launched by the government like MUDRA Yojana, Standup India, Startup India

This sector also faced some challenges it was hard hit by the global pandemic- COVID-19 and the sector almost collapsed in 2020 facing a liquidity crunch

3. COVID 19 IMPACT ON MSMEs

Endurance International Group conducted a survey using 500 respondents who work with MSMEs in India, out of which one-third said that they had to close their operations due to heavy losses during the lockdown period. The nationwide lockdown had some major consequences on the functioning of MSMEs such as:

- Lack of manpower as workers went back to their villages
- Distortion in the supply chain
- Complete freeze of economic activities
- Difficult to procure raw material
- Commercial and industrial outlets of small business were shut down

According to (Roy, Patnaik, & Satpathy, 2020), due to covid 19, 50% of MSMEs suffered losses close to 20-25%. Moreover, manufacturers of non-essentials and essential goods and services incurred losses up to 50% due to lack of appropriate relief measures by the government. By not providing adequate support to rural areas & not giving enough time to prepare for the lockdown, people lost their jobs as soon as the lockdown was announced. Hence, it has become imperative for the nation to come forward and help the MSME sector.

3.1 Way forward

During this hardship, The Reserve Bank of India permitted banks to not maintain a cash reserve ratio for the loans given out for the period from January 1- October 31, 2021, The exception was made for the first time that banks were allowed to give out money to drying MSMEs and deducted it from the net demand and time liability.

The Union Budget of 2021-2022 was made, keeping in mind to bring some relaxation to MSMEs facing a cash crunch. The government pumped Rs 15700crs in the sector. Moreover, the establishment of Person Companies in the budget will help in the growth of the MSME sector also.

1. Incentivising digital adoption within the sector
2. Promoting digital literacy
3. Addressing skilling challenges
4. Reducing GST
5. Easing various licensing and compliance regulations
6. Making interventions that would guide the sector to wider markets, through e-commerce.

In terms of job creation, the MSME sector is second only to agriculture. In addition, it accounts for 48% of India's exports. The sector supports big companies and their value chain by providing strong and complicated forward and backward connections. It plays a crucial part in the creation of Atma Nirbhar Bharat. While government assistance has been crucial in getting the business off the ground, releasing a fresh round of bolder and well-targeted changes will propel the industry to new heights (Sharma, 2021).

3.2 Ease of doing business

With the help of state and central government in terms of incentives, labor laws, effective policies, favorable work conditions, MSMEs can flourish and beat the competition from the international companies and large MNCs in India. By ensuring economies of scale and providing adequate information about future regulatory requirements, the government can help MSMEs in a big way.

3.3 Promote FDI

FDI helps nations attract employment by creating new jobs, generating tax revenue, and increasing economic growth. India has the most liberal FDI policy in the world which can be exploited by the MSMEs. They should use this policy to attract investment, modern technology to give the sector a competitive edge.

3.4 Development of MSME clusters

Cluster initiatives are projects that are organized as collaborations between a diverse number of public and private sectors (Porter, 1998). We should have policies to promote MSME clusters in sectors such as automobiles, food processing, textiles, and pharma. A cluster-based development approach involves collaborative actions by companies, governments, and other institutions to

improve the competitiveness of a group of interlinked economic activities in a specific geographic region. Keeping this in mind, the Government has adopted the Cluster Development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of MSMEs and their collectives in the country. Collectively these clusters can act as large firms and utilize the advantage of scale and scope to increase productivity and employment in their clusters. A cluster approach is important as it reduces the risk of relocation for employees, signals opportunities, and provides an efficient means of obtaining other important inputs.

3.5 Use of technology

Technology is an important source needed to start up a business and run processes efficiently and to bring a higher degree of standardization. New age technology is vital for MSMEs to have an edge in the global market, and therefore developing indigenous technology as well as technology collaboration with global partners

Technology is responsible for the upward trend in the operations of the MSMEs sector.

4. PROCEDURE

The government and the bank's procedures and their inspections are the main hindrances to the growth of MSMEs. There are over 60 central, state, and local laws that keep an eye on small businesses in various zones like factory maintenance environment, municipal bylaws, power, taxations, labor. This requires an unnecessary burden on small units as they need to maintain more than 100 registers and forms. An army officer has been appointed to impose these rules and visit units leading to delay increased cost of production, hindrance, and harassment. Small units are usually one-man shows and fall short to meet the requirements. The creative genius side of Indian entrepreneurs can only be released if the rules and regulations are well organized. The central government has started working towards having a single law for all small businesses providing relief to them.

4.1 Exit Policy

There must be a safe exit policy for MSMEs that will protect the interests of labor. Just like products industries also have a wheel of life and there are small business units where bank loans have led to negative outcomes and have become nonperforming. The Reserve Bank of India took the initiative in which they settled the dues one final time.

5. CONCLUSION

MSMEs are important to have a thriving economy for India and this is the most interesting time for this sector to open its wings to new growth opportunities. The paper suggests that recent market reforms and government interventions have helped enterprises beat the competition which has consequently helped India with its economic growth, high foreign investment, reduced inflation, higher employment opportunities, and so on. Apart from the obvious benefits, MSMEs act as a strong source to utilize natural resources and remove the regional imbalances if they are properly established in the backward areas. In a nutshell, we can say that the sector has shown tremendous growth and success over the last 10 years. With effective policy frameworks and the use of strategies discussed in the paper, MSMEs can become an 'engine of growth for a developing country like India.

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