



Role of Msmes in Economic Development

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ABSTRACT

It is well known that the MSME sector constitutes the spine of the nation, small Industry has been one of the major pillars of India's economic development strategy since Independence. India accorded high priority to Small and Medium Enterprises (SMEs) from the very beginning and pursued support policies to make these enterprises viable, vibrant and over time, these have become major contributors to the GDP. Moreover, the MSME sector has weathered and overcome stiff competition in the post liberalization period in the domestic and International arena.

KEYWORDS : MSME, Economy development

INTRODUCTION

MSMEs have been regarded as the engine of economic growth and development all over the world. Today, MSMEs are constituting nearly about 90% of the total enterprises especially in developing economies which creates marvelous employment opportunities and is accounting major share of exports and industrial production. In India, multinational companies have played a pivotal role in the emergence of Indian MSMEs as world leaders in specific products. This sector plays an important role in the growth of GDP in the economy as it creates employment opportunities at low capital cost

DEFINITION OF MSME

MSME are the engines of growth of any country's economy. In accordance with the provision of Micro, Small and Medium Enterprises Development Act 2006 the micro, small and medium enterprises are classified into two classes.

A. Manufacturing Enterprises a. The Enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule of the Industries Development and Regulation Act 1951 and are defined in the terms of investment in plant and machinery.

B. Service Enterprises a. The enterprises engaged in providing or rendering of services and are defined in the terms of investment in equipment.

b. The limit of investment in equipment for service enterprises is notified in the following table.

**TABLE I
MANUFACTURING SECTOR**

Enterprises	Investment in plant & machinery
Micro	Less than Rs 25 lakhs
Small	Over Rs 25 lakhs but not exceeding Rs 5 Crores
Medium	Over 5 Crores but less than Rs 10 crores

**TABLE: II
SERVICE SECTOR**

Enterprises	Investment in Equipments
Micro	Less than Rs 25 lakhs
Small	Over Rs 10 lakhs but not exceeding Rs 2 Crores
Medium	Over Rs 2 crores but not exceeding Rs 5 Crores

OBJECTIVE OF THE STUDY

The objective of this study is to know the growth trend in MSME sector, challenges being faced and to study the future of MSME in India.

METHODOLOGY

The data used for the study is secondary in nature. They were collect-

ed from annual reports of Ministry of MSMEs and Journals

GROWTH AND PERFORMANCE OF (MSMEs)

As per the results of Fourth All India Census of Micro, Small & Medium Enterprises(MSME), the sector contributes significantly to the number of enterprises, employment and output of the country .

TABLE III

Performance of SSI / MSME Units, Employment and Output

Sr.no	Year	Total working enterprises (in Lakhs)	Employment (in Lakhs)	Gross output (In Crore)
1.	2006-2007	361.76	805.23	1351383.45
2.	2007-2008	377.37	842.23	1435179.26
3.	2008-2009	393.70	881.14	1524234.83
4.	2009-2010	410.82	922.19	1619355.53
5.	2010-2011	428.77	965.69	1721553.42
6.	2011-2012	447.73	1012.59	1834332.05

Source: Annual Reports of MSMEs, Govt. of India

CONTRIBUTION TO ECONOMY

MSMEs, the backbone of the Indian economy are increasing enormously in India. They contribute in GDP and GNP of India. It acts as a breeding ground for entrepreneurs to grow from small to big. India has nearly 12 million MSMEs, which is almost 50% of industrial output and 42% of India's total export. The reasons are as follows:-

- a. Investment of less capital
- b. High contribution to domestic products
- c. Extensive promotion and support by Government
- d. Significant export earnings
- e. Operational flexibility
- f. Man power training, machinery procurement
- g. Capacity to develop appropriate indigenous technology .
- h. Technology- oriented industries

OPPORTUNITIES IN MSMEs

1. Less capital intensive
2. Most important employment generating sector. It provides 50% of private sector employment
3. Effective tool for promotion of balanced regional development
4. It is extensively promoted and supported by the Government
5. Finance and subsidies are provided by the government
6. Produced goods are purchased by the Government
7. 40% exports in India are through MSME channel
8. Procurement of machinery and raw material
9. Globalization has offered new opportunities for the MSMEs
10. Trade fares and exhibitions played a vital role in the economic growth of the countries.

NUMBER OF SCHEMES OFFERED BY THE GOVERNMENT

There are a number of schemes, including Credit Guarantee Fund Scheme for MSEs (CGMSE) that covers collateral free credit facility, Micro Finance Programme operated by SIDBI, Trade Related Entrepreneurship Assistance and Development (TREAD) Scheme for women, and Performance and Credit Rating Scheme under which MSEs can get themselves rated by any of seven accredited agencies.

Similarly for skill development, there are a number of programmes, including Industrial Motivation Campaigns, Entrepreneurship Development Programmes (EDPs), Entrepreneurship Skill Development Programmes (ESDPs), Management Development Programmes (MDPs), Rajiv Gandhi Udyami Mitra Yojana (RGUMY), etc. In addition, a number of Tool Rooms & Technical Institutions and Technology Development Centres (Research Institutes) located across the country provide training and assistance to MSEs.

To support small enterprises in marketing, the MSME ministry offers as many as five schemes, including International Co-operation Scheme, Market Development Assistance Scheme for MSEs (SSI-MDA) - Participation in Exhibition, Vendor Development Programme for Ancillarisation, WTO Export Programme (EP), and Public Procurement Policy for goods produced and services rendered by MSEs by the Central Ministries, Departments and PSUs.

On technology upgradation, there are two notable MSME schemes: Credit Linked Capital Subsidy Scheme and ISO 9001/ISO 14000/HACCP Certification Reimbursement Scheme. Under the first scheme, 15 percent upfront capital subsidy is provided on term loan for induction of improved technologies while the second one is designed to incentivize quality upgradation, improvement, environment management and food safety systems.

PROBLEMS OF MSMEs IN INDIA

There are some evidences that the MSMEs contributions prominently to the Indian economy through creating employment opportunities, generating production volumes and exports, introducing innovations and development of entrepreneur skills. However, the MSMEs faces many problems in India. Some of the main problems of MSMEs are:

- Unduly delayed payments by large industry players
- Absence of adequate and timely affordable bank credit
- Lack of infrastructure inputs and banking support
- Limited capital and knowledge
- Low managerial capability,
- Low return on investment,
- Lack of suitable technology,
- Low production and productivity
- Ineffective marketing strategies,
- Non-Identification of new markets,
- Hurdles in expansions, modernisation and innovations,
- Inadequate power supply, water supply, transportation facilities
- Lack of adequate warehousing facilities,
- Lack of information timely,
- Lack of skilled labour and training

SUGGESTION

This sector has to redesign their strategies and innovate themselves. To become successful enterprises, some major aspects need to be kept in mind.

1. Segmentation: Banks should conduct sector specific studies and the problem of different industries should be noted. This way, bank will be able to connect with the specific problems of the particular industry and devise strategy accordingly.

2. Assistance in Marketing: There should be an adequate finance for the MSMEs so that these enterprises can focus more on brand building and should be given chance to advertise their products and participate in trade fairs. Adequate attention should be given to cash flow. Entrepreneurs of this sector looks into cash flow matters more than the profit for the success of the enterprises.

3. Becoming More Technologically Advanced: MSMEs are required to continuously update and use latest technology into their production process, management function and marketing to reduce cost, increase productivity & efficiency. This sector needs innovation to create new business and sense the changes that have already occurred in the business, technology and demographics.

4. Skill Development and Trained Manpower: There should be an allotment of more funds to set up resource development and growth centers. Skilled manpower is required for the small enterprises which will enhance MSMEs competitiveness. As business passes through stiff competition the entrepreneurs should evaluate the business demands and continuously strive to cater them. For successful enterprises one should learn from their mistakes and make sure not to repeat again.

5. Need for Infrastructure Development: The MSMEs need to have an adequate infrastructural set up which includes development of MSME clusters near highways, rail corridors, proper channels of telecommunication, adequate supply of power and other supporting facilities.

6. Approach to Equity Capital: The ability of MSMEs should be enhanced by expanding their reach to access equity market. For this purpose, regulatory and fiscal barriers should be removed. Stock Exchanges have also set up separate exchange for listing and trading shares of MSMEs, making it easier for them to raise equity capital.

7. Innovative Financing: MSMEs are dependent mainly upon banks and informal modes of financing like family, friends and private money lenders. Self Help Groups (SHG) and Micro Finance Institutions (MFI) are only on its initial stage of financing. The possibility of linking MSMEs with secondary market needs to be considered. Institutions like SIDBI need to design instruments to link MSMEs with capital market.

CONCLUSION

The Micro, Small and Medium Enterprises (MSMEs) are one of the major segments of the Indian economy. It plays an important role in the economic development of the Nation. It is the major constituent sector in employment generation, production system, enhancing exports and GDP. But, there is a need to carefully nurture and support this sector. Joint effort is needed from the Govt. and MSMEs to acquire technological effectiveness. Financial support needs to be ensured taking into consideration the growing investment demand, including the requirements of technological transformation. This sector needs to adopt a proactive approach where the Govt. should propose a long term strategy to sustain themselves in the changing economic scenario and progress beyond the current GDP growth.

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