Original Research Paper

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Indian Economy

MEDIUM SMALL AND MICRO ENTERPRISES (MSMES) ARE PRESUMABLY THE BACK-BONE OF THE INDIAN ECONOMY AND ARE A MAJOR SOLUTION TO THE COUNTRY'S ECONOMIC GOALS. A CRITICAL STUDY.

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ABSTRACT MSMEs are an extremely important feature in achieving India's major economic goals like reduction in unemployment, poverty and inequality. The research paper brings out this importance but it also analyses the problems that this particular sector faces in achieving its full potential. There are solutions that also stakeholders have to work towards such that a major impact could be made in achieving economic goals that have so far been deluding the economy. **Research Question:** An analysis would be attempted to understand the meaning of Medium, Small and Micro Enterprises in India and the impact that they would have on fulfilling major macroeconomic goals. The obstacles and the solutions to achieving adequate growth in this sector would be analysed.

KEYWORDS : Medium Small and Micro enterprises, Macroeconomic goals, employment, obstacles and solutions and the rural sector

INTRODUCTION

Every emerging economy like India aims to achieve a high Gross Domestic Product(GDP) growth rate. A developing economy requires a sustainable GDP of above 8% per annum to achieve the goals that it has set out for itself. India achieved independence 75 years ago but the progress concerning GDP and other parameters like reduction in poverty and inequality, rising incomes of the farmers, increasing employment and sustainable development are still a long way ahead.

The normal path that an economy follows in its course, to being considered a developed one, is when there is a movement of the workforce from the agriculture sector to the manufacturing and services sector of an economy. Besides the workforce, the sector's contribution to GDP should increase from the manufacturing and service sectors and start declining from the agricultural sector. This essentially means that the agricultural sector's dependency on GDP as well as supporting the economy's labour force declines as the economy achieves higher GDP growth.

This is the path that the other developed economies of the world have followed. India's major reform period started in the 1990s when it opened up the economy to the rest of the world and started encouraging globalisation and liberalisation. The impact of this was both positive and negative. Positive is that India would be a recipient of the growth process that the world economy would be experiencing. The negative would be that any downsize that is experienced by the world would also impact India. As the saying goes "If America sneezes the rest of the world catches a cold".This quote adequately puts in perspective the extent of the impact of globalisation.

As a result of the reforms of the 1990s, there was an immediate positive impact and the GDP growth started rising. Before 1990 India's GDP growth had stagnated at around 3.5%. Despite 30+ years of Independence, this growth rate did not show any upward movement. It was so sticky that the eminent economist Raj Krishna in 1978 described it as the "Hindu Rate of Growth". The reason that it was called the 'Hindu rate of growth' was that it was peculiar to India. After 1991 there was a sudden surge and the GDP started increasing.

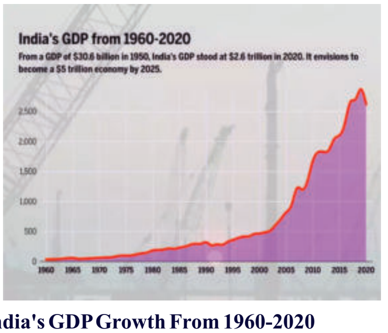

Figure 1: India's GDP Growth From 1960-2020
Source: Google image

Definition

To understand the importance of the impact of Medium Small and Micro Enterprises on achieving high rates of growth in the Indian Economy it is necessary to trace the path of development that other developed economies have followed.

Britain was the first country to have industrialised in the 19th century followed by other countries in Europe, the USA, Japan, Russia, Korea etc. All of these countries followed the path of moving from the agriculture sector to the manufacturing sector and then the services sector. This essentially means that the contribution of the different sectors to GDP as well as the dependent workforce moves from one sector to another in an above-stated manner. As the importance of the other sectors increases the extent of job creation in these sectors also goes up simultaneously, resulting in higher productivity in the agricultural sector as well as the other sectors.

It is thus imperative that developing economies like India learn from the path that these countries have followed.

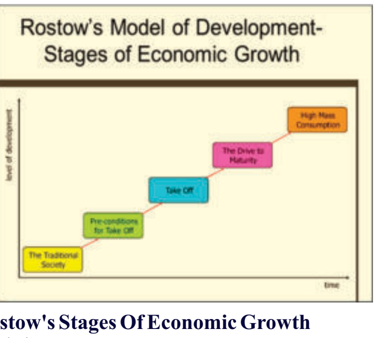

Figure 2: Rostow's Stages Of Economic Growth
Source: Google image

Rostow Indicated The Path Of Economic Growth:

The first stage is when the country is in a traditional setup which means that the agriculture sector is the most important.

The second stage is when the surplus is generated in the agriculture sector this would be used to develop the manufacturing and the industrial sector.

The third stage is when the productivity has increased of labour and capital in both the agriculture and the industrial sector.

The fourth stage is when the society in all three sectors is ready to accept the new norm and hasten the growth process.

The fifth stage is when high rates of growth and all other major economic goals have been achieved.

Macro Economic Goals

The Major Macroeconomic Goals That The Indian Economy Is Yet To Achieve Are:

- High sustained GDP growth
- Reduction in levels of unemployment
- Reduction in levels of poverty
- Reduction in levels of inequality
- Sustainable development

The Indian Economy has had the above goals which it has been trying to achieve for the last 75 years since independence. It is only since 1991 that GDP rates have moved above 6-7% per annum. The best period for the Indian Economy was from the period 2003-2008 when the GDP growth was close to 9% per annum. Since then due to both external and internal factors, the growth rate has gone back to 6-7% per annum.

International Monetary Fund (IMF) estimates India to be one of the top two fastest-growing economies in 2022. It is projected that India will grow close to 7% in the year 2022-23. But for the economy to achieve all the macroeconomic goals it needs to ensure that this growth percolates down to the

- Agricultural sector

Within the agricultural sector

1. The marginalised and small farmer. Farmers who own less than one hectare of land.
2. The Scheduled Castes and Scheduled Tribes are dependent on the agricultural sector.
3. Women
4. Agricultural labourers

- Non-agricultural sector

1. The urban poor
2. Urban underprivileged sections of society
3. Women

The indications are that this high level of growth has not trickled down to all the above-indicated sections and over the years inequality has increased. Growth in India has become top-heavy.

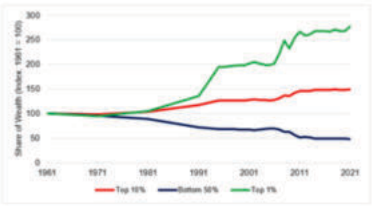

Figure 3: Extent Of Wealth Inequality In India From 1961-2021

Most of the industrialised economies of the world including China have followed the following path:

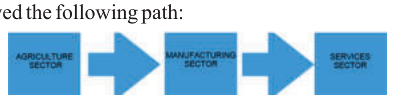

Figure 4: Path Followed By Industrialised Countries
Source: Own source

This essentially means two things as the economies develop:

- The first stage is when the share of the agricultural sector in GDP declines as well as the
- dependent workforce in that sector indicates a fall.
- The second stage is the shift towards the manufacturing sector both in terms of workforce and contribution to GDP.
- The last stage is when both the share of GDP as well as the workforce in the services sector indicates an increase.

Medium Small And Micro Enterprises

The definition in India of Medium Small and Micro Enterprises also known as MSME are those sets of industries with fewer than 50 employees(Small Enterprises{SE}), while Medium sized enterprises (ME) are those with less than 250 employees. Besides these, there are micro companies which employ up to 10 people. The current definition of SE has been enhanced in terms of the turnover as well as the number of people which is inlined with the market and price conditions. The reason that this has been done is that the government tries to encourage the growth of this sector by giving a lot of incentives so that there is a positive impact both concerning the number of people employed as well as their turnover.

The government aims to develop this sector to not only produce for domestic demand but also encourage them to export. Both these factors will automatically lead to higher GDP growth and economic activity, and aid in creating jobs.

The Ministry of MSME has adopted the role of hand-holding such enterprises to achieve the above-stated objectives.

Source: Ministry of Micro, Small and Medium Enterprises – Annual Report

Figure 5: India's Distribution Of Industries In The MSME Sector

Most economies of the world while moving from the agricultural sector towards the manufacturing sector used the surplus from the agricultural sector in increasing the potential of the manufacturing sector.

The manufacturing sector is part of the industrial sector. The industrial sector consists of eight core sectors:

- Refinery products
- Electricity
- Steel
- Coal
- Crude Oil
- Natural Gas
- Cement
- Fertilisers

In India the broad sectors are mining, manufacturing and electricity and the used-based sectors are basic goods, capital goods and intermediate goods.

Post-1991 reforms the Indian markets were open to the global population and it became a level playing field for private entrepreneurs as the license raj came to an end. The services sector became the engine of growth while the production sector saw volatility.

In terms of value MSMEs are an important contributor to the growth of GDP. They have made a significant contribution to the manufacturing, processing and preservation of various products. They consist of:

- Micro enterprises which have an investment of not more than rupees one crore
- Small enterprises which have an investment of more than rupees one crore but less than rupees ten crore
- Medium enterprises which have an investment greater than rupees ten crores but less than rupees fifty crore

They are a vital contributor to the economy's economic growth. They create job opportunities and help in the development of backward and rural areas. This sector contributes almost 8% of the country's GDP around 45% of manufacturing production and 40% of exports. They employ 46.6 million people as per the national sample survey of 2019.

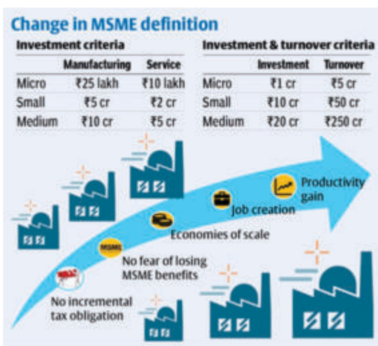

Figure 6: Definition Of MSME According To Investment And Turnover Criteria
Source: Google image

The major advantage of this sector is its employment potential. The sector in India is highly heterogeneous in terms of the size of the enterprise, variety of products and services and levels of technology. It plays a critical role in the provision of employment opportunities at a comparatively lower capital cost than large industries. Besides this, it helps in the industrialisation of rural and backward areas, reduces regional imbalances and tries to achieve a more equitable distribution of income and wealth. The MSME consists of several ancillary industries which are offshoots of much bigger industrial units. This is an important feature as it helps in the transference of technology to smaller units helping in the skilling of labour as well as using capital productively.

Growth Of Medium Small And Micro Enterprises In India Since The 1990s

The growth of MSMEs is an extremely important aspect to achieve the macroeconomic goals of the economy. MSMEs play a huge role in the growth process. Besides the organised sector, there is an unorganised sector which is micro-enterprises not necessarily registered under MSMEs. It is important to analyse the growth of this sector. These enterprises have been recognised as an engine of growth and have contributed 90% of the employment potential for this sector as well as contributed to the country's GDP. This sector has shown innovativeness and compliance, especially when the country is facing a dip in its GDP. They have used the recession as an opportunity to innovate and grow. These enterprises bring down overhead costs and are adaptable to the environment. They must be on a nonstop conveyor belt to expand efficiency and use their adaptable framework to increase growth in the economy. Encouragement should be provided to this sector to grow both in the rural and urban areas. For employment goals to be achieved emphasis should be on the development of such enterprises in rural areas.

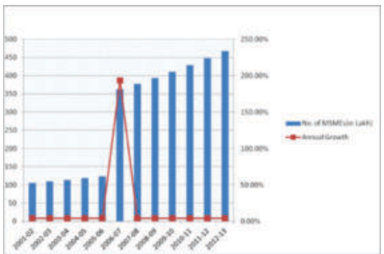

Figure 7: Growth of MSMEs From 2001-2013
Source: Google image

MSMEs are important institutions that have to be encouraged to increase employment in a developing economy. As the economy develops the number of people employed in the agricultural sector has to be gainfully employed within the rural sector.

Figure 8: Contribution of SMEs in 2018
Source: KredX

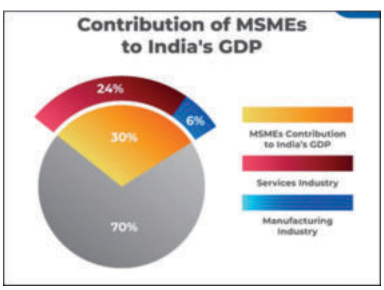

Figure 9: Contribution of MSMEs to India's GDP
Source: PIB, Ministry of MSMEs

The government has made concerted efforts to increase employment opportunities in rural areas such that migration from rural to urban areas is minimised. This is important so that the infrastructure facilities in the urban areas are not overly burdened.

Obstacles In The Path Of Their Growth Process

The main issues that are involved in the growth of MSMEs are entrepreneurial judgements. This essentially means business acumen concerning knowledge in running a business. Besides this, growth motivation and recognition opportunities as well as an organisational capability. Along with the above, there are market factors, risk management and internal control, financial management and capacity. As far as India is concerned small businesses face several challenges these are:

- Limited access to cash for financial growth
- Lack of business plan
- Problems with cash flow
- Difficulty in recruiting talented staff
- Having issues standing out in the market
- Using a passion for the business
- Suddenly moving to a new business model
- Poor marketing
- Not keeping abreast of customer needs
- Growing too quickly
- Inventory issues

Specific issues for MSMEs are regulation and policy measures of the government. Very often both of them change in quick succession leaving the business owners at sea. For example, there could be changes in duties, changes in export and import tariffs, sudden pollution-controlling measures, increasing tariffs on the use of water and electricity etc. Besides these, there are financial difficulties and the most frustrating is the attitude of banks towards new business owners. These fledging companies need help in access to global markets as well as a skilled workforce. The government has launched several MSME loans and funding schemes but there are several gaps which remain to be addressed.

Most of these business owners have low credit ratings and may not have the collateral to qualify for a loan. Financial institutions in India are wary about lending to this sector as the risk of default is very high. Here, the government has to step in and help solve this extremely important issue.

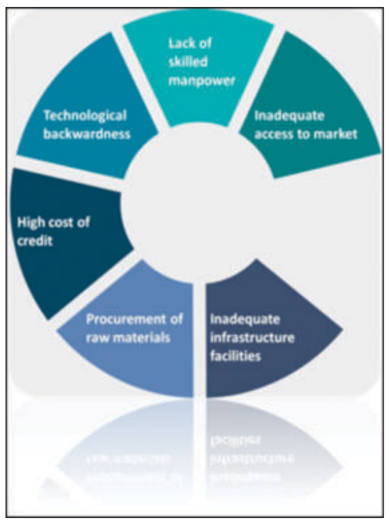

Figure 10: Difficulties Faced By The MSME Sector
Source: Google image

SOLUTIONS

The MSME sector in India is considered important in achieving the macroeconomic goals of reduction in unemployment, poverty and inequality, it becomes imperative for the government to find a solution to increase their growth. The main issue is the lack of finance. This can only be solved if the government intervenes. Given the strict control of reducing non-performing assets (NPAs) of banks by the central bank of India (RBI), the only way that finance can be dispersed to companies which do not have adequate collateral and or have a high tendency of default is with the government entering in to give finance and or surety for this sector.

The government of India has introduced some easy loan facilities, such as 'The Mudra Scheme' (primarily for finance to women entrepreneurs), and certain insurance schemes to protect this sector.

The other way is to adopt the business model that has been in place in Bangladesh called the 'Grameen Bank'. This is a form of cooperative made up of primary women whereby each one of them puts in some amount of money and they get shares in return. As and when any member needs a loan the money is loaned out to that person at a nominal rate of interest. What was seen in this model was that most of them returned the money on time and the money was effectively used to increase the business potential. Subsequently, there were issues which came up with this cooperative model. But taking all of this into account the government of India can come up with an acceptable, viable and efficient model of financing for this sector.

Figure 11: Grameen Bank Model
Source: Google image

CONCLUSION

The MSME is an extremely important sector to achieve goals like reduction in unemployment and inequality in the Indian economy. The Indian economy cannot grow without the support of all three sectors. Any one of the sectors lagging will automatically lead to a reduction in the GDP growth rate. The importance of the manufacturing sector is apparent as it is the sector which has the capability of absorbing the excess workforce which is presently dependent on the agriculture sector.

This can be achieved by encouraging the MSME in the rural sector and helping in reducing the obstacles that exist in their growth path. These could be in the form of infrastructure, credit availability, help in finding markets for their products as well as maximum financial assistance and insurance etc from the government. Efforts should be made to increase industrialisation and urbanisation within the rural sector as this will bring in its wake a reduction in migration to urban areas as well as reduce the load on the existing urban infrastructure. This is the only way for the Indian economy to achieve a sustainable high GDP growth rate.

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