

# Navigating the Waters of “The Engine of Development”- Small Medium Enterprises (SME’s) in India

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## Abstract

SMEs are considered to be the spine of the Indian economic structure which has on a continuous basis proved to be the bulwark of the country’s economy, providing it the resilience to ward off economic shocks and the sustaining capacity in many financial adversities and calamities. These have relentlessly contributed to the overall growth of national GDP and also has generated employment to millions and export to the worldwide economy. While, SMEs are the engines of development in the current scenario, their growth is hindered by factors like low capital basis, availability of low-cost credit, poor technology, lack of quality and sufficiency in material and human resources, infrastructural constraints, lack of market awareness, globalization of trade, increasing competition and timely restructuring when stressed. The motive of this research paper is to analyze and understand the impediments in the growth of SMEs in the Indian context and to suggest solutions to overcome them. The paper also seeks to explore the impact of the growth of these SMEs at a global juncture.

## 1. Introduction

The conception of a worldwide economy has made the globe a small town causing intense competition in each sector. Countries are introducing various reforms, schemes and plans to sustain their economy by promoting and developing SMEs, by providing them incentives and financial support. India has also started to lay foundations for SMEs which has favorably accorded to the economic development of the nation. In India, SME is understood to be an enterprise where in case of manufacturing industry the investment in plant and machinery is between Rs.25 lakhs to Rs.10crs and Rs.10lakhs to Rs.5crs in case of service sector enterprise<sup>1</sup>.

MSME sector is a highly spirited industry with a dynamic nature that promises high growth rate potential for the national economy. As of March 2018, there are close to 51 million MSME units in the country and employ about 117 million people across various sectors, constituting 40% of the workforce. The MSME share to the total(non-agriculture) GDP is about 37% and they also contribute to 43% of exports based on the data maintained by the ministry of commerce<sup>2</sup>. In the present scenario, SMEs are gaining more and more importance credited to their contribution to the overall economic growth of the nation. In spite of being a vital source of development and growth the SMEs face number of constraints on a daily basis like lack of awareness among public, insufficient resources, intense competition due to globalization and liberalization of

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<sup>1</sup> MSMED ACT 2006

<sup>2</sup> Report- MSME Pulse

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Indian trade practices etc., which demands for the formation and implementation of new schemes and policies, thus extending the horizon of advancement of the SMEs. Through this paper, we would like to highlight the SME's scope of development in India and also study its impact on a global level.

## 2. SME Sector in India

SMEs are critical to any economy, yet are considered basic for developing nations like India where factors like unemployment among youth and poverty prevailing among people widen the gap between the rich and the poor. Economists like Amartya Sen, Paul Krugman, Dudley seers, etc., have stressed on reducing factors like poverty, inequality, and unemployment for efficient economic development. SMEs act as a powerhouse in a country like India by generating huge employment opportunities among skilled and unskilled workers of the local community and thus help in the advancement and growth of that rural and backward person and the region. The SMEs attract big companies to invest in their country by reducing the outsourcing charge of such companies and thus it lays the foundation for the upliftment of the poor and paves the way for increased industrialization and globalization in India, that in turn increases the GDP of the nation which is a significant factor enabling overall economic development. In their own growth, SMEs are promoting a balanced growth in India. They also help in national development through significant investment earnings, low investment requirements, operational flexibility, location wise mobility, low intensive imports, and capacities to develop appropriate indigenous technology.

## 3. Measures Taken by Government to Develop SMEs

SMEs are considered as the drivers of the Indian economy for several decades now. SME sectors grew across numerous verticals like service, manufacture, etc., in the last few decades. But in the last 5 years, the SMEs have achieved a drastic growth and have undergone changes in many fronts. The government has also implemented many policies and schemes for the advancement of the SMEs like the '**Make in India**'(2014), '**Startup India**'(2015), '**Skill India**'(2015) etc., to make the SMEs digitalized the government has also focused on '**Digital India**'(2015) thus enabling SMEs to get aligned with m-payments and e-commerce.

The govt. through these initiatives tries to offer financial support, to spread awareness among people about the importance of the SMEs, improving the quality of goods manufactured thus facilitating more exports and increased overseas market trade.

## 4. MSMED Act

The government of India established this act in 2006 with the objective to facilitate the promotion and development of the SMEs and enhance their competitiveness. This act became operational from October 2<sup>nd</sup>, 2006. The act contains 32 sections divided into 6 chapters. This act classifies the enterprises into:

- Manufacturing enterprise

- Service enterprise.

This classification is based on investment in plant and machinery for the manufacturing sector and investment in equipment for the service sector. This act also provides a definition for the micro, small and medium manufacturing and service enterprise.

**Manufacturing enterprise- investment in plant and machinery:**

- Micro sector- up to Rs.25 lakhs
- Small sector- above Rs.25 lakhs & up to Rs.5 crores
- Medium sector – above Rs.5 crores & up to Rs.10 crores<sup>3</sup>.

**Service enterprise- investment in equipment:**

- Micro sector- upto Rs. 10 lakhs
- Small sector- above Rs.10 lakhs & upto Rs.2crores
- Medium sector- above Rs.2 crore & upto Rs.5 crore<sup>4</sup>.

## 5. Importance of MSME Act

This brought a historic change by including the service sector in the micro, small and medium enterprises. This serves as the provider of the highest share of employment and its contribution to GDP is higher than that of the agricultural sector. The GVA of the agriculture and allied sector is 15.87% while GVA contributed by service & industry sector in the FY2018-19 is 54.40% and 29.73%<sup>5</sup> respectively. This act's objective is to facilitate and promote SMEs.

## 6. The Micro Small and Medium Enterprises Development (Amendment) Bill 2018

This bill was introduced by the state minister Giriraj Singh in the Lok Sabha on July 23, 2018. The bill was proposed to amend the definition of MSMEs given under the MSMED Act 2006, by classifying the enterprises based on annual turn over of the MSMEs, while the classification at present is based on the investment made by the enterprises in plant, machinery, and equipment. The bill also proposed to give the central government to change the annual turn over limits of these enterprises through a notification and also stated that the central government may classify tiny and village enterprises as small enterprises. This bill basically tries to extend the classification limit of the micro, small and medium enterprises. But the bill was not passed by the Lok Sabha and hence was lapsed.

## 7. Performance of SMEs in India (FY2017-18)

**Table 1:** Contribution of MSME in the country's economy at current price<sup>6</sup>

| Year    | MSME GVA | Growth (%) | Total GVA | Share of MSME in GVA (%) | Total GDP | Share of MSME in GDP(%) |
|---------|----------|------------|-----------|--------------------------|-----------|-------------------------|
| 2011-12 | 2583263  | -          | 8106946   | 31.86                    | 8736329   | 29.57                   |

<sup>3</sup> Section 7 of MSMED ACT

<sup>4</sup> Section 7 of MSMED ACT

<sup>5</sup> Ministry of statistics and program implementation (2018-2019)

<sup>6</sup> MSME Annual report 2017-18

|         |            |       |          |       |          |       |
|---------|------------|-------|----------|-------|----------|-------|
| 2012-13 | 2977623    | 15.27 | 9202692  | 32.36 | 9944013  | 29.94 |
| 2013-14 | 3358343009 | 12.27 | 10363153 | 32.26 | 11233522 | 29.76 |
| 2014-15 | 365819633  | 9.43  | 11481794 | 31.86 | 12445128 | 29.39 |
| 2015-16 | 3936788    | 7.62  | 12458642 | 31.60 | 13682035 | 28.77 |

MSMEs are vital for any economic growth in a country, especially in developing countries they act as the engines of growth and development. The above table shows the contribution made by the MSME sector to the GDP of India. It has steadily contributed by 31% annually until the year 2016. Currently, its GDP contribution has become 37% in the year 2018.

**Table 2:** Estimated employment in MSME sector<sup>7</sup>

| Activity category | Estimated no. of enterprises (in lakhs) |               |               | Share (%)  |
|-------------------|---|---------------|---------------|------------|
|                   | Rural                                   | Urban         | Total         |            |
| Manufacturing     | 114.14                                  | 82.50         | <b>196.65</b> | 31         |
| Trade             | 108.71                                  | 121.64        | <b>230.35</b> | 36         |
| Other services    | 102.00                                  | 104.85        | <b>206.85</b> | 33         |
| Electricity       | 0.03                                    | 0.01          | <b>0.03</b>   | 0          |
| <b>All</b>        | <b>324.88</b>                           | <b>309.00</b> | <b>633.88</b> | <b>100</b> |

**Table 3:** Estimated employment in MSME sector<sup>8</sup>

| Activity category | Employment (in lakhs) |               |                 | Share (%)  |
|-------------------|-----------------------|---------------|-----------------|------------|
|                   | Rural                 | Urban         | Total           |            |
| Manufacturing     | 186.56                | 173.86        | <b>360.41</b>   | 32         |
| Trade             | 160.64                | 226.54        | <b>387.18</b>   | 35         |
| Other services    | 150.53                | 211.69        | <b>362.22</b>   | 33         |
| Electricity       | 0.06                  | 0.02          | <b>0.07</b>     | 0          |
| <b>All</b>        | <b>497.78</b>         | <b>612.10</b> | <b>61109.89</b> | <b>100</b> |

From table 5 we can infer that the MSME sector creates a huge number of employment opportunities for the people in this country next to the agricultural sector. This is playing a crucial role in reducing unemployment and is paving the way for the nation's growth and people's upliftment.

As India apparatuses up to remember the high development way, the MSME division accepts a critical job in driving the development motor. The MSME area in India keeps on exhibiting exceptional strength despite trailing worldwide and residential monetary conditions. The division has supported a yearly development rate of over 10% for as long as a couple of years. With its readiness and dynamism, the part has indicated outstanding imaginativeness and flexibility to endure financial stuns, even of the gravest nature. The importance of MSME'S is inferable from their bore for work age, low capital and innovation prerequisite, the advancement of modern improvement in rustic territories, utilization of conventional or acquired ability, utilization of nearby assets, activation of assets and exportability of items. As indicated by the assessments of the Ministry of MSME, Government of India, the division produces around 100 million

<sup>7</sup> MSME annual report 2017-18

<sup>8</sup> MSME annual report 2017-18

employments through more than 46 million units arranged all through the land spread of the nation. With 38% commitment to the country's GDP and 40% and 45% offer of the general fares and assembling yield, individually.

## **8. Steady Role of Government of India**

Perceiving the capability of this division for the country's advancement, the Government of India, through its different offices, has found a way to reinforce the MSME area and advance development and limit working in this segment. The Micro and Small Enterprises Cluster Development Program is being actualized by the administration for the all-encompassing and incorporated advancement of these endeavors in groups through delicate mediations, hard intercessions and framework upgradation for improving their profitability and aggressiveness. The Credit Linked Capital Subsidy Scheme likewise aids the innovative upgradation on MSME'S. The National Manufacturing Competitiveness Program is another lead program of the Ministry of MSME which tries to outfit these endeavors with innovation based devices in the regions of value upgradation, profitability, structure advancement, vitality productivity and promoting. To guarantee a better progression of credit to SME'S, the Ministry has presented a Policy Package for Stepping up Credit to Small and Medium Enterprises (SME'S) under which it works plans like the Credit Guarantee Fund Scheme and the Performance and Credit Rating Scheme.

The Make in India Strategy embraced by the Indian Prime Minister Shri Narendra Modi intends to encourage venture, cultivate advancement, upgrade expertise improvement and fabricate a supportable eco-framework for the assembling foundation in the nation. These measures have prevailed with regard to bringing the business certainty up in India. The stage has been set through these industries and MSME mediations for a bigger offer of worldwide business in India which presents open doors for MSME joining in practically all industry segments. The Indian MSME division is balanced for quick development and joining with major worldwide worth chains. Auspicious strategy intercession and due help have expeditiously brought about rendering the Indian MSME'S all inclusive aggressive.

## **9. Significance of Financing in Small and Medium-Sized Enterprises**

The SME division possesses a significant position in any creating economy. In the event that satisfactory and auspicious monetary assistance is given to them, they can do ponders in any economy. Financing has been distinguished in numerous examinations as the most significant factor deciding the survival and development of little and medium-sized endeavors (SME'S) in both creating and created nations. Access to financing permits SME'S to attempt beneficial speculations to extend their organizations and to obtain the most recent advancements, subsequently guaranteeing their aggressiveness and that of the country overall. Imaginative financing in SME'S is the main motor of monetary development and a key component in making organizations aggressive, producing new occupations and accomplishing keen and practical advancement. Essentially, the future aggressiveness of little-scale organizations won't be

conceivable without magnificence in financing systems. Transforming savvy thoughts into acknowledging creation is set as a basic in created market and approach producers have concentrated on expanding interests in learning and improving access to back for further extension and improvement.

The issue of access to the back, pledges, out-dated innovation/hardware/types of gear, lack of business improvement administrations, showcasing, infrastructural bottlenecks, poor budgetary and administrative information, and deficiency of data sources/gifted work are the normal issues being looked by the SME'S. Of the considerable number of issues looked by the SME'S, the non-accessibility of auspicious and sufficient credit at a sensible loan fee is a standout amongst the most significant. SME business visionaries face issues in acquiring the financing they require just as an absence of enthusiasm with respect to business banks in managing them. The banks see SME financing as a dangerous endeavor because of lacking records prompting low credit-value and higher exchange costs. SME business visionaries think that it is hard to comprehend the necessity for getting advances and regularly stay confounded with respect to how to approach the business banks. This regularly prompts a circumstance where the SME business visionaries are helpless before nearby shippers who exploit the circumstance and charge excessively higher rates of intrigue and manage their own terms of loaning.

Under the worldwide emergency conditions, the brokers ended up reluctant to confide in the borrowers and loan, purchasers ended up nervous about their future income and henceforth loath to spend and speculators set their venture designs aside for later. Not at all like in the propelled nations, banks are very much promoted with non-performing resources inside points of confinement. There is no business bank in India which has solely focused on the private company section (like for instance, Wells Fargo in the US) with tweaked offers to meet the particular needs of the SME client.

Among instruments of SME Financing, SIDBI is the primary budgetary establishment for the advancement, financing, and improvement of industry in the SME division in the nation. SIDBI additionally gives fitting help as limited time and formative administrations. So as to improve the credit stream to the SME segment, it has tied-up with eight open segment banks in the nation. With these tie-ups, it has secured 150 SME bunches, out of the absolute 388 groups distinguished the nation over.

Notwithstanding the different activities taken by the administration, banks and money related establishments, SME'S face certain difficulties that are all-inclusive in nature. These issues identified with the issue of securities, cost of credits, delay in receivables, out of date innovation, advertising, and so forth. So as to address the above issues in the Indian setting, some imaginative instruments of financing have been presented and institutional setups have been made. A portion of the real activities are:

1. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE )
2. SME Rating Agency of India (SMERA )
3. India SME Asset Reconstruction Company (ISARC )
4. SME Financing and Development Project (SMEFDP)
5. Credit Appraisal and Rating Tool (CART)
6. SME Growth Fund.
7. Common Credit Guarantee Fund Scheme (MCGFS)
8. India SME Technology Services Ltd

9. Blessed messenger Investor

10. India Development Gateway

## 10. Issues of SME Financing

As each coin has different sides. Disregarding every one of the endeavors by government, little scale ventures are hesitant in utilizing these imaginative financing systems. The different issue looked by SME's when attempting to get financing are -

- They are unfit to catch showcase openings, which require enormous generation offices and therefore couldn't accomplish economies of scale, homogenous norms and ordinary supply.
- They are encountering troubles in the buy of sources of info, for example, crude materials, apparatus and types of gear, money, counseling administrations, new innovation, very gifted work and so forth.
- Small size blocks the disguise of capacities, for example, statistical surveying, advertise insight, inventory network, innovation development, preparing, and division of work that hinders profitability.
- Emphasis to save tight overall revenues makes the SME'S near-sighted about the inventive enhancements to their item and forms and to catch new markets.
- They are unfit to rival huge players as far as item quality, the scope of items, advertising capacities and cost.
- Absence of a wide scope of Financing and different administrations that are accessible to fund-raise and support the business.
- Absence of Infrastructure, quality work, Business discernment and restricted choices/chances to enlarge the business.
- Poor IT and Knowledge framework.

## 11. A Portion of the Key Difficulties Looked by SME's are Recorded Underneath

### 1. Shortage of Resources

A standout amongst the most significant test looked by SME'S in India is Scarcity of Resources, for example, Raw material and work. Because of offering Corruption the legislature puts the open assets in uneconomic prominent tasks instead of important ventures, for example, framework improvement or advancement of country India. Which upsets the development procedure and by and large improvement of SME'S situated in such regions.

### 2. Lack of FDI's

Because of the high impact of Multi-national partnership over the Micro areas and SME'S in India, the remote financial specialists falter to put resources into ventures of SME'S. The absence of FDI in the Indian economy can be seen by the way that however the FDI standards have been facilitated by the Indian Government in the on-going past yet we are yet to see its advantages for India in the long haul. Along these lines, it would be progressively hard for the SME'S and sprouting Entrepreneurs to get advances and this may hamper their improvement.

### **3. Absence of Finance**

It has risen as the most testing hindrance for immaculate use and contending market in miniaturized scale division. SME'S are not ready to raise assets from banks and government particularly for high hazard ventures. Deficient essential framework offices like sporadic power and water supply, terrible street and railroad availability and so on are a portion of the variables that bring down the development procedure of SME'S in India.

### **4. Absence of Technology**

One of the vital factor the chooses the achievement or disappointment of an Enterprise is the utilization of Technology for the creation. The best innovation causes the undertaking to decrease the expense of generation, improves profitability and brings effectiveness, however, SME'S neglects to adapt up to the most recent innovation because of the absence of money in India.

### **5. Terrible Economic Environment**

Another outside factor that hampers the development of an independent company is that debasement makes an awful monetary condition in the nation. A great deal of cash is spent on debasement exercises and that cash depletes out to the economy and hence leaves the nation to confront deficiency of income. Every single such factor prompted the poor development of SME'S division in India.

### **6. Absence of Marketing Assistance**

With regards to the advertising of items or administrations globally, any little or medium organization is dependably hit by its shortage of spending plans, which thusly restrains its development. A B2B (business to business) showcase is where dealers can list their organizations free of expense and utilize the intensity of the web. However, because of the absence of innovation and information, the workforce neglects to investigate the advantages of the web in the present period. This prompts moderate development of SME'S in India.

## **12. Opportunities**

From government approaches to innovative headway, SME'S can anticipate the accompanying patterns in 2018:

### **1) Leveraging the online business pattern**

SME'S now can make their essence in the online world by going computerized. For a long time, the SME area was battling with the extraordinary challenge, yet going advanced can give them the required edge.

### **2) Adoption of innovation**

Since web-based life, cell phones, and cloud innovation is all the rage now, SME'S can take help of these stages. Implanting the social and cloud stage will open up huge open doors for income development and operational productivity.

### **3) Taking a favorable position of Government plans**

SME'S need to get advantages of Government activities, for example, 'Make in India', 'Start-up India' and 'Ability India'. These plans presented by the legislature are planned to elevate an enterprising society to develop the current SME status.



#### **4) An abundance of Fintech firms**

With the quantity of Fintech firms and moneylenders on the ascent, SME'S will have the chance to get open and reasonable financing choices.

SME'S dependably needed to stress over the hole in their sources of income while taking the SME credit from the conventional loan specialist. However at this point, they will almost certainly center around their business altogether, as upgraded speed, straightforwardness, and brisk SME advance offices are going to increment fundamentally. SME advances have dependably helped the endeavors to meet all their business needs that emerge every now and then without confronting any trouble.

#### **Following are the business needs to be provided catered by the SME advance:**

1. Dispatch of another item run
2. Business extension
3. Paying out pay to workers
4. Warehousing needs
5. Obtaining new gear
6. Credit for showcasing and publicizing exercises

Getting simple access to advances isn't the main unequivocal factor, numerous loan specialists presently don't require the borrowers to put their own or business resources on hold to meet all requirements for financing. Financing presently has turned out to be quicker as there is no compelling reason to promise insurance, less desk work, and negligible documentation. The online course of SME advances has additionally cleared the haze by giving the comfort of getting to the business advance subtleties whenever from anyplace on the web.

### **13. Conclusion**

SMEs have been nearly settled in every single significant segment in the Indian business, for example, nourishment preparing, Agricultural data sources, Chemicals and Pharmaceuticals, Textiles, plastic items, and Computer programming. SMEs are referred to for developments as new items with great quality administration too it likewise gives work openings. It is otherwise called the spine of the organization. SMEs establish above 80% of an absolute number of modern endeavors and from the foundation of improvement. In India as well as over the world SMEs give the mind-boggling commitment to the economy. SMEs have above over 40% offer in ventures, delivering in excess of 8000 worth included items that contribute almost 35% direct fare and up to 45% in the fare. After agro-business SMEs is one of the greatest business giving part which gives work almost 28.28 million individuals. (Stuti Kacker, Ministry Small Scale industries).

Starting a business today is somewhat easier when contrasted with the most recent decade. There are various quickening agents, financial specialists, hatcheries, and coaches accessible to handhold a business just to guarantee they see the eventual fate of each business. The regularly developing versatile/web entrance has opened up both the provincial and worldwide markets. In any case, this time is superbly directly for everybody as a piece of the country to sow the seeds, water them, and construct the emotionally supportive network; doing this will permit SMEs to accomplish everything

with maximum capacity. Thus, we should simply settle on a choice in a powerless way, and not a quick choice

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