

# MSMEs under the Make in India Movement

<sup>1</sup>Dr Janmejy Senapati, Associate Professor, Dept. of Basic Science and Humanities, <sup>1</sup>Silicon Institute of Technology, Bhubaneswar, Odisha, India, [jsenapati35@gmail.com](mailto:jsenapati35@gmail.com).

<sup>2</sup>Dr Bhabani Shankar Dash, Associate Professor, Dept. of Management, Dr Ambedkar Memorial Institute of IT & Management Science, Rourkela, Odisha, India, [bsd1968@rediffmail.com](mailto:bsd1968@rediffmail.com)

<sup>3</sup>Dr Ranjan Kumar Dash, <sup>3</sup>Deputy Vice President, ICICI Lombard GIC Ltd, Kolkata, West Bengal, India, [dashranjan@gmail.com](mailto:dashranjan@gmail.com)

**Abstract:** Micro, Small and Medium Enterprises (MSMEs) are considered as backbone to every economy but much essential for fast growing developing economies like India. It contributes significantly to India's Gross Domestic Product (GDP) since its inception as a designated segment drawing attention of the Government since past five decades. It plays a crucial role in providing wide employment opportunities helping in industrialization of rural and backward areas by providing skilled work force at competitive cost, thereby reducing regional imbalances and assuring more equitable distribution of national income and wealth. In a populous and geographically spread country like India, workforce is the resource and utilisation of the same is possible not only through industrialisation by establishing large scale industries but by spreading MSMEs across the geography. Make in India is one such recent initiative by Government of India which has opened up many avenues for the diverse industries exploiting available resources in each nook and corner of the country thereby contributing significantly to the GDP of the country. The study is a brief attempt to understand the inherent opportunities available with MSMEs while focussing on their performance in the wake of Make in India movement.

**Key words –** MSME, Make in India, Employment, economic development, global market, inclusive growth.

## I. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are no more in the horizon but well embedded in every economy since decades. India also initiated its focus on the sector since the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 was enacted and the erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises in 2007. The sector is globally considered as the growth engine for the economy and instrumental in its driving factors like employment, penetration and growth of diverse resources, rural and semi-urban distribution, larger scope for innovation, borderless markets with fair competition, and many more. The MSMEs in India is also highly heterogeneous in terms of the size of the enterprises, variety of products and services and levels of technology. It also helped moving the agro concentrated Indian work force towards manufacturing and service sector. Make-in-India was conceptualised by the NDA (National Democratic Alliance) Government with an aim to enhance quality and quantity of Indian produce for the global market which is also an attempt to bridge the paramount gap between the Chinese and Indian market. Catering to global market need diverse skill set along with both quality and

quantity in line with market demand. While India was trying its fingers on such scalability, breaking the Great Wall of China which already acquired larger part of the globe in terms of its products ranging from fine needle to aeroplanes was an Everest high challenge. The unfortunate COVID pandemic and subsequent sanctions and perceptions about China in fact opened up the opportunity for India to accelerate its Make in India movement. The diverse global market cannot be catered without having a wide spread development of manufacturing and service hubs and that is not possible without having a substantial growth in the MSME sector. An attempt has been made to briefly study the linkage between the growth of MSME sector and the Make in India movement.

## II. LITERATURE REVIEW

A number of studies has been carried on the subject focusing both MSME and Make in India. Mali (1998) observed that micro, small and medium enterprises face rising competition in the current global setting. They have to develop themselves in the fields of management, marketing, product diversification, infrastructural development, and technical upgradation. Furthermore, new small and medium enterprises have to move from low growth area to the high

growth area and they have to form planned pact with entrepreneurs of neighbouring countries. Subrahmanya (2004) has given emphasis on the impact of globalization and domestic reforms on small scale industries sector by emphasising that small scale industry had suffered in terms of growth of units, employment, output and exports. He also suggested that the focus must be turned towards technology development and support of financial infrastructure to make our small scale industry worldwide competitive and add to national income and employment. Sudan (2005) described the challenges in Micro and Small Scale Enterprises Development and policy issues by raising diverse questions related to MSMEs. Rathod (2007) examined the growth and pattern of the Small Scale Industry (SSI) sector and found the causes for success and failures, evaluated the effect of globalization on SSIs and export opportunity and found the barriers and constraints that SSIs were facing to cope with globalization. Singh, Verma and Anjum (2012) studied the performance of MSMEs in India and focused on policy changes which have unlocked new opportunities for this sector and opined that MSME sector has made excellent progress in terms of number of MSME units, production and employment opportunities generated. Venkatesh and Muthiah (2012) examined that the role of MSMEs in the industrial sector is increasing rapidly and they have become a driving force for future growth. They highlighted that promoting MSME sector is indispensable for the economic welfare of our country. Srinivas (2013) explored about the performance of MSMEs, their contribution in the economic growth of India, identified the number of enterprises, employment opportunities in MSME sector and concluded that MSMEs play an important role in inclusive growth of our economy. Mahajan and Sidhu (2019) observed that MSMEs are the reason for the spur in the creation of new employment opportunities for the masses, providing stimulus to the growth rate of the GDP of the nation and provides the material to the bigger firms. Shelaby A. (2019) concluded that NGOs are likely to play role of financial institutions offering micro loans to beneficiaries in their corresponding service areas and this variable impacts the new establishments of MSMEs significantly.

### III. MSMEs

The capability of Micro, Small and Medium Enterprises (MSME) are re-defined during the year 2020 and as per new criterion. In a micro enterprise, the investment in plant and machinery does not go beyond one crore rupees and turnover does not exceed 5 crore rupees. In a small enterprise, the investment in plant and machinery cannot be more than 10 crore rupees and turnover cannot surpass 50 crore rupees. In a medium enterprise, the investment in plant and machinery cannot be more than 50 crore rupees and turnover cannot exceed 250 crore rupees. In the former classification, both financial investment and investment in plant and machinery in MSME units were low. With change in time, there is the necessity to increase the financial limits of investment on

plant and machinery and fixing a limit on the turnover which was necessary of the time and hence rightly revised by the government at right time though little early attempt must have positioned MSME sector of India at global level. The new classification was also applicable to service sector thereby expanding the scope of MSMEs. It is expected that the new criteria will bring about many advantages which will help MSMEs to grow in size. It has also been decided that the turnover with respect to exports will not be counted in the limits of turnover for any category of MSME units whether micro, small or medium. This is another step towards ease of doing business. This will attract investments and creating more jobs in the MSME sector. The change in criteria for the classification of MSMEs give a major relief to the exporters.

#### Prospects in MSMEs

A lot of of possibilities are available in the field of MSMEs. The prospects of well developed MSME sectors are: i) generating employment opportunities, ii) customer centric production, iii) minimizing regional imbalance, iv) enhancing exports and, v) attracting foreign investment.

#### Main Problems faced by the MSMEs:

MSMEs play vital role for the economic growth of our country but they face the following problems:

##### i. Lack of availability of sufficient and timely credit from banks:

Presently, high interest rates, high risk perception among the banks, demand for unreasonable collateral securities, restrictive and conditional working capital limits and huge procedural transaction cost often creates problem for the MSMEs in availing easy credit from the banks as it does not have any alternative sources of finance.

##### ii. Complex labour laws and red tape:

All the laws and regulations related to manufacturing and service units of MSMEs are very complex and practically very difficult to observe.

##### iii. Poor infrastructure:

MSMEs in our country are mostly established in industrial estates set up many years before and have come up in an unorganised mode in rural areas. Insufficient and undependable infrastructure including power, roads, and water etc. acts as a handicap in the rising international market resulting to lower production capacity and higher production cost.

##### iv. Lack of marketing and promotional support:

In our country, MSMEs face the difficulty of marketing their products because of inadequate finance and market intelligence among the entrepreneurs for their business development, unlike the multinational companies (MNCs). Low technological level and lack of access to up to date

technology had a deep effect on the competitiveness of the MSMEs.

#### **v. Problems relating to direct and indirect taxation and regulatory norms:**

Rigid, complex as well as burdensome and time consuming regulatory norms create unnecessary problems in the functioning of MSMEs and therefore cost of doing business is much higher in India in comparison to other countries.

### **IV. INITIATIVES UNDERTAKEN BY THE GOVERNMENT FOR THE PROMOTION OF MSMEs**

The Ministry of MSME executes the following schemes and programmes for the up gradation of technology to rejuvenate the promotion of MSMEs:

#### **i. ISO 9000/ISO 14001 certification reimbursement schemes:**

This scheme is launched in March, 1994 to boost the competitive strength of the MSMEs by way of technological up gradation, quality improvement and better environment or management.

For acquiring quality management system-ISO 9000 certification or environment management system- ISO 14001 certification, this scheme reimburses 75% of the fees, subject to a maximum of Rs. 75,000. 113 Business Studies-Vol : XXXIII & XXXIV, 2012 & 2013

#### **ii. Credit Linked Capital Subsidy Scheme (CLCSS):**

It seeks to facilitate technology up gradation by giving 5 percent upfront capital subsidy to the MSMEs which are involved in manufacturing on institutional finance up to rupees. 1 crore availed by them for introduction of well-established and superior technologies in the specific sub-sectors/products approved under this scheme.

#### **iii. The MSE-Cluster Development Programme (MSE-CDP):**

This programme is indented for holistic development of selected MSEs clusters through value chain and supply chain management (skill development, technology up gradation of the enterprises, better credit delivery, marketing support, setting up of common facility centres) based on diagnostic studies carried out in consultation with cluster units on co-operative basis.

#### **iv. Laghu Udyami Credit Card Scheme (LUCCS):**

This scheme was launched and executed by the banks for giving borrower friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self employed persons including those in the small sector in November, 2001. Credit limit for each enterprise has been enhanced from rupees 2 lakhs to rupees 10 lakhs having satisfactory record only.

#### **v. National Equity Fund Scheme (NEF):**

This scheme gives equity type (cost should not exceed rupees 50 lakhs) support to entrepreneurs for setting up new projects in small industrial sector for undertaking expansion, modernization, technology up gradation and diversification of existing MSEs and for rehabilitation of feasible sick units.

#### **vi. Credit Guarantee Fund Trust Scheme for Micro and Small Industries (CGFTSI):**

This scheme covers collateral free credit facility to new and existing MSMEs up to a maximum limit of rupees 50 lakh to realise the small entrepreneur's dream of making it big and successful.

#### **vii. Scheme of Fund for Regeneration of Traditional Industries (SFURTI):**

To establish a regenerated, holistic, sustainable and replicable model of integrated cluster-based development of traditional industries in khadi, village and coir sectors with an aim to make more productive and competitive and increases the employment opportunities in rural and semi-urban areas, this scheme was launched in 2005.

#### **Areas to be focused to strengthen the MSME Sector in India:**

There are only some areas where state and central governments are to focus on to strengthen MSMEs sector, so that it can continue its contribution in the nation's growth, technology and environment. The competitive strength of the economy depends on how efficiently all the resources in the process of production are utilised and how efficiently these are marketed, thus the entire chain of production has to be competent. This means that the production has to be cost efficient and should meet quality needs of the consumers. This improvement can come through the use of latest technology. However India has a vast pool of technical talent with a well developed intellectual infrastructure, the country still lagging behind in the matter of developing and adapting new technologies in the MSME sector. At present the MSME sector requires an effective information system to support and deliver information to diverse users. Such information systems will be used to provide effective interface between users and computer technology and will also provide information for managers on the day-to-day operations of the enterprises access to markets. To face the competition from large enterprises within and outside, MSMEs are required to respond promptly to the growing marketing needs and innovations. There is an urgent need to provide better marketing facilities in order to sustain and further enhance its contribution towards output, employment generation and exports. It has been emphasised that a vast opportunity exists for SMEs to reach their required financial objectives by optimising their network presence and capabilities. Other than this it is found out that majority of our MSMEs, create a large amount of their revenue from the local market; they



still depend on traditional media like telephone directories and newspapers to reach their customer base. International Journal of Pure and Applied Mathematics Special Issue 1735

**Infrastructural bottlenecks:** Infrastructural bottlenecks can cause serious damages production, consumption and distribution of the products. Besides these, MSMEs also face lack of finance, obsolete technology and inadequate marketing facilities. Common infrastructure for MSMEs will be the panacea for the problems of MSMEs in which all the MSMEs will share the costs of infrastructure, which are otherwise unaffordable for individual MSMEs. In this case all the MSMEs will get the benefit from economies of scale, synergy and collective bargaining by collaborating with each other particularly in case of common infrastructure, common facilities, raw material procurement, marketing and transportation of finished goods, testing laboratory, common tooling/machining, Research & Development etc.

**Mentoring and Advocacy:** Entrepreneurs have a product or service idea, a passion to hard work but limited money, knowledge about markets, Government or bank procedures, cash flows or how to manage man power. That is why mentoring and hand holding support becomes vital. These are available from friends, relatives, NGOs (Non-Governmental Organisations) or a parent unit. This is interrupted and unable to meet the vast requirement of our country. It should be institutionalized through outreach efforts of Governments. Trained man powers are required for this task. These resource persons guide in setting up a unit, making it commercially viable, interacting with financial institutions and understanding markets, as well as the impact of globalisation. The Small Industry Development Organization (SIDO) is now playing an important role of hand holding, advocacy and facilitation (legislative support, fiscal incentives and protection from stiff competition).

**Access to Credit:** Credit is the lifeline of business. Risk in small businesses is high for which investors are not willing to invest in sole proprietorships, partnerships or unlisted companies. Institutional credit needs collateral securities which also make the owner of the enterprise even more exposed to foreclosure. Credit guarantee funds assist lending institution in mutual guarantee or advancing loans. This has not been emerged in a significant manner. Unit finances come under severe pressure when there is a large order, rejection of consignment, and excessive delay in payment occurs. Under these circumstances, International Journal of Pure and Applied Mathematics Special Issue 1736 suggests that small enterprises prefer to first seek their own resources or loans from friends and relatives and after that they look for external finance. In this connection, Micro Units Development and Refinance Agency Bank (MUDRA Bank), is a new institution set up by the Union Government for the development of micro units and refinance of Micro Finance Institutions (MFIs) to encourage entrepreneurship in our country and to provide funding to the non corporate small

business sector. MUDRA Bank will need two types of product like refinance for the micro units having loan requirement from rupees 50 thousands to 10 lakhs and support of Micro Finance Institutions on landing. MUDRA Bank will refinance to micro business under the scheme of Pradhan Mantri MUDRA Yojana.

**Globalisation:** Globalisation of trade and commerce has changed the business environment through World Trade Organization (WTO) agreement. So it is necessary to make aware the small and medium enterprises about these changes and prepare them for the future. In our country, many steps have been taken in this regard. Besides having a WTO cell in the nodal ministry, 28 awareness workshops were conducted across the country. Workshops have also been held on intellectual property rights and bar coding. Besides these, some more steps like monitoring of imports and anti-dumping action have also been taken for the medium and small enterprises.

**Procedures:** A major obstacle in the growth of Micro and Small units is Government and bank procedures and their inspections. There are more than sixty central, state and local laws which regulate small businesses in the areas of factory maintenance environment, labour, municipal bye laws, taxation, power etc. There is a necessity of maintaining more than one hundred registers and forms which are unnecessary burden on small enterprises. For the enforcement of these provisions, a large number of inspectors visit these enterprises which lead to harassment, delay, hindrance and increase in cost of production. Many small enterprises are cannot satisfy these conditions. Rules and regulations must be streamlined. Few state governments have taken some positive steps in this regard. The Central Government has initiated a study to have a single law for small enterprises. This enactment should ease the situation significantly. International Journal of Pure and Applied Mathematics Special Issue 1737.

**Exit Mechanism:** A sound exit policy for MSMEs is highly necessary which will preserve labour interests. Because, industries too have life cycles like products and there are small business units where bank loans have become bad and non-performing. The first steps in this regard have been taken recently by Reserve Bank of India (RBI) whereby one time settlement of dues as on 31 March, 1997 was allowed. The results have been encouraging.

**Make in India:** Make in India campaign is one of the major economic reforms (other reforms are the Jan Dhan Yojana that aims to bring the excluded into the banking system, the Swachh Bharat Abhiyaan that targets cleaning up the country, the dissolution of the Planning Commission, the Digital India plan to cover e-governance, broadband for all, IT-enabled education, or telemedicine and the plan to build 100 smart cities) and initiatives taken up by the NDA government to make India as global destination for investment and make India as the Global Manufacturing

Giant. The make in India programme has both positive and negative aspects affecting different segments of Indian economy. MSME sector has some apprehensions that the Make in India initiative is affecting the MSMEs.

Make in India campaign is an initiative of Government of India (GOI) to encourage the multinational as well as domestic companies to manufacture their products in India. This is a flagship programme and a dream of our Prime Minister Mr. Narendra Modi, which was launched on 25th September, 2014. The main objectives of the programme are:

- To make India as Global manufacturing hub,
- To create jobs,
- To encourage entrepreneurs in India,
- To boost economic growth,
- To urge both local and foreign companies to invest in India
- To foster innovation, protect intellectual property, and enhance skill development.

The new initiative is based on four pillars to boost entrepreneurship in India and it encompasses twenty five sectors. The pillars are:

- New Processes,
- New Infrastructure,
- New Sectors and
- New Mindset

## V. DISCUSSION AND SUGGESTIONS

- Government should treat this programme as strategy and it should enhance and assist the MSME policy of Government of India (GOI) to make these have competitive edge over their counter parts in other countries.
- GOI should order the large enterprises, MNCs and foreign corporate to procure at least 50 percent of their requirements from the Indian MSMEs then only the goal of Make in India campaign be achieved.
- Under Make in India campaign GOI should provide additional incentives and subsidies to encourage the MSMEs and make this campaign a success.
- Under Make in India initiative, GOI should ask the large enterprises, MNCs and foreign corporate to buy at least 50 percent of their requirements (instead present 20 percent) from the Indian MSMEs owned by SC/ STs to make this campaign more fruitful. The GOI should support and encourage those MSMEs which directly or indirectly associated to Indian farm sector through suitable policy measures to Make in India campaign successful.
- The Governments should create awareness among the MSME entrepreneurs and remove their apprehensions about the consequences of Make in India programme on MSME sector.

- The government should give extra incentives and support to Agro based MSMEs and even agro based manufacturing undertakings under Make in India programme.
- Both the central and state governments should come up with new policy measures to support and encourage farm sector and provide industry status to agriculture or else we will face acute food problem for the rising population of our country.

## Strategy for Revitalisation and Growth of MSMEs:

Indian industries particularly MSMEs are facing competition from Asian countries like China or Taiwan in imports and Srilanka, Bangladesh or Nepal in exports. According to the Government of India, promotion and not protection is the solution to the issues of survival and growth of micro, small and medium enterprises. Hence, while reservation of goods for exclusive production by MSMEs continues, the focus must be on strengthening their competencies. This implies a holistic look at the concerns of industry. As part of this, the following strategic interventions have been started:

- Easing credit accessibility
- Introduction of options for limited partnership and factoring
- Subsidy in finance cost for upgrading technology
- Industry specific technology up gradation programmes
- Support for developing and accessing overseas markets for export
- Expanding reach of infrastructure programmes
- Encouraging self-declarations in line of inspections for various regulations.

## VI. CONCLUSION

MSMEs in India have travelled a path but still not adequately fuelling the economy towards the 5trillion journey. Certainly MSMEs have contributed a lot in driving growth of every nation. But in a developing country like India, balancing between developing skilled work force, connecting the vast geography through proper road, rail, air, water ways network while struggling with adequate finances to promote investments was not an easy task. Make in India programme with the inclusion of MSMEs in the New Start up policy of GOI, definitely facilitates this sector to flourish and grow. A variety of policy initiatives and incentives for MSMEs announced under this programme are going to accelerate growth. But more particularly, the Make in India Campaign helps, supports and acts as boost for MSME sector in terms of sustainability. The growth path was undoubtedly benefited by introduction of the make in India campaign which opened up gates to many countries while emerging India as a global manufacturing hub. Adequate finance, precession technology and skilled work force are need of the time to accelerate this joint strategy while establishment of

appropriate regulation with regulatory bodies will help the sector sustain its growth and market acceptance in long run.

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