

# EMPOWERING MSMEs FOR INCLUSIVE GROWTH: AN OVERVIEW

<sup>1</sup>Nazia Akhlaq, <sup>2</sup>Dr. Abdul Tayyab Khan, <sup>3</sup>Dr. Farhina Sardar Khan

Ph.D. Research Scholar, Assistant Professor, Assistant Professor

Department of Commerce and Business Management

Integral University, Lucknow, India

## Abstract

The main purpose of the study is to draw attention towards the importance and role of small scale industries in Indian economy. The extent of financial exclusion in the sector is very high. Realizing the importance of this sector, both Government of India and Reserve Bank of India, are trying to energize the sector. Various schemes, under the umbrella of financial inclusion are been introduced for the betterment and growth of the sector. The idea of financial inclusion of Government of India, for inclusive growth can only be fulfilled by the growth and empowerment of small industry sector as it is the backbone of the country and a vital sector of Indian economy.

MSME Sector has evolved as a vibrant and dynamic sector. It contributes in the GDP of the country, it helps in creating jobs and generating employment. It also help to develop entrepreneur. Not only in developed country like America, where a large portion of the population is dependent on MSMEs for employment generation but in developing country like India, setting up large business and making big investments is not always possible. Hence, this lacuna is minimized by small businesses, which involve lesser amount of investments, infrastructure and workforce and helps to generate employment and large output from lower investments. MSMEs are acting as economic engines to boost the economy of the country. In spite of its innumerable contributions the sector is facing many challenges and hurdles that directly affect the growth of the sector.

**Keywords:** Empowerment, Small scale industries, Economic health, Indian economy, Developing countries, financial exclusion, Inclusive growth

## I. Introduction

Financial Inclusion is a key for growth and empowerment of small industries. Small scale services sector is an important sector of Indian economy. In India, the concept of financial inclusion was first introduced in 2005, since then the financial paradigm has changed drastically. It is apparent that a holistic approach is required to address the problem of financial inclusion the country is facing for decades. Financial inclusion ensures easy access to finance and formal financial services to all sectors of economy without any differences and discrimination. Aims to bring the common man within the framework of financial inclusion. Financial inclusion targets at inclusive growth of everyone and tries to reduce and eliminate all the informal sources of finance prevailing today that are directly or indirectly exploiting the people.

**Small scale industries** plays major role in Indian economy. They are well known for their contribution in the **GDP** of the country. Not only in developed countries, but also in a growing economy like India, it is playing major role. On one hand it helps to generate employment with lesser investments and small setups and on other hands it lends support to large enterprises by acting as their nurseries. Although they are not listed on the stock exchange of the country but they directly affect the economy.

MSME Development Act, 2006 classify MSMEs as under:

Enterprises	Manufacturing	Services
Macro	Up to Rs 25 lakh	Up to Rs 10 lakh
Small	Rs 25 lakh to Rs 5 crore	Rs 10 lakh to 2 crore
Medium	Rs 5 crore to Rs 10 crore	Rs 2 crore to Rs 5 crore

## II. Research Objectives

The main objective of the study is to study and evaluate the current status of MSMEs, their contribution in the Indian economy and secondly what are the challenges and problems they are facing in current scenario. To identify the various sources of finance available to SMEs under government schemes. The study also focuses on the financial inclusion plans and its schemes for MSMEs. The main purpose of the study is to find out the reasons behind financial exclusion in the small industry sector and to suggest possible solutions for that.

## III. Research Methodology

This research paper is based on secondary data. The data is compiled from journals, thesis, books and research papers.

## IV. Review of Literature

**Mittal Alok**;(2018)<sup>01</sup> “Alternate lending platforms are fixing India’s financial inclusion problem, becoming enablers for SME funding[SME sector]”. The study highlights the problems of SME, finance is one of the biggest problem SME are facing all over the world. It describe the problems SME faces in getting loan from banks. The study suggest there should be alternate lending platforms to support SME.

Another study was conducted by **Babita Saikia**;(2017)<sup>02</sup>titled, “An Analytical study of rural financing with special reference to microfinance and financial inclusion: The study suggest that finance is very important for growth of any economy. Financial deepening has been shown to “cause” growth (Demisgiic- Kunt and Mdkrimovic, 1998; Rajan and Zingales, 1998). The study focused on rural backward groups and possible ways to bring them under financial inclusion network. The objective was to study the role of self-help groups in backward, remote areas and hat efforts they are taking to spread awareness.

**Manohar Chandratre Suresh;**(2017)<sup>03</sup>“Financial study of small scale industries in MIDC Area of Dombivli of the Thane District”, conducted a study on small scale industries and their role in job creation and employment generation and how important they are for the development of primary and secondary sector. Objective of the study was to find out the various sources available for funding small scale industries. Scientific questionnaire is used for the primary data collection. Basic research design is descriptive.

**Singh charan et. al;**(2016)<sup>04</sup>“Finance for Micro, Small, and Medium-Sized Enterprises in India”. The study focuses on the challenges the MSMEs are facing in getting finance for setting business. The study highlights that financial awareness among MSMEs is key reason for their poor growth. Data is collected by structured questionnaire. Findings suggest that financial literacy stops them from using the financial services offered by government.

**Vishal Geeta;**(2016)<sup>05</sup> carried out a study titled “Impact of Microfinance in small scale industries development”. The study focused on the influence that microfinance had on the growth and betterment of small scale industries. Objective of the study was to study the impact of microfinance in business expansion, technology up gradation and profitability of SSI. Basic research design was exploratory. Questionnaires were used as a data gathering instrument, chi-square and ANOVA has been applied to test the hypothesis.

**Kumar Satish;** (2016)<sup>06</sup> “Financing patterns of SMEs in India during 2006 to 2013-an empirical analysis”. Primary focus of the study is to study the financing pattern in small scale industry, the SMEs mainly depends on loans and short term debt, It suggest that the industry suffer from the problem of finance and suitable steps should be taken to provide easy and affordable credit to this sector and new financing avenues should be discovered to tackle with this problem.

**Kumari S.L;**(2013)<sup>07</sup>conducted a research titled “Financial Inclusion, as study with reference to nationalised banks in Madurai District, with special reference to rural and semi urban banks”. The study was conducted to examine the reforms and laws made in the financial sector in India. It also analysed the effect of these reforms on the population of India, those who are benefitted and why still a large portion of population is not able to use these services. Questionnaire was designed to collect primary data. Data was collected from various banks by multi stage random sampling technique.

**Sharma Mandira et.al;** (2011)<sup>08</sup>“Financial Inclusion and development”. This paper states that financial inclusion and human development are directly related to each other, as the financial status improves the human development index (HDI) improves. The countries where financial inclusion is high and their population is using formal financial services they have a better standard of living. There HDI is high.

**Anil Bharadwaj;**(2002)<sup>09</sup>“Reforms and small-scale industries in India”. The study is about the reforms in the policies for the small scale industry and how it survived performed during this period. The study also focuses on the competition SSIs are facing from MNCs and the role of government to support the SSIs.

## V. Role and importance of small scale industry

Small business sector is emerging as the most progressive and bright sector of Indian economy, which is still underdeveloped and backward. Making big investments is not always possible in this scenario hence setting small business with lesser investment and manpower is the biggest advantage of this sector. The sector is also helping to promote industrialization in backward and remote areas creating jobs for rural backward which is a great achievement for this sector. Major role of MSMEs are as follows:

1. Helps to generate employment.
2. Helps to create new opportunities
3. Increase in import/export
4. Creates revenue
5. Helps in entrepreneur development
6. Development of backward areas
7. Equal distribution of wealth and income
8. Increase in foreign exchange
9. Less capital requirement
10. Imparts strength to large businesses.

**Table 1: Contribution of MSMEs in countries economy**

(Figures in Rs. Crores adjusted for FISIM <sup>3</sup> at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

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

## **VI. Problems Faced by Small Scale Industries**

Small scale industries face in numerous problems. These problems are both internal and external. Some of the problems faced by small scale industries are as follows;

### **a. Finance**

Finance is the blood life of any business. The small businesses depend on their own funds or seek money from relatives and friends or depend on money lenders or non-banking financial institutions for establishing their own businesses. Because of the problems and hurdles in getting easy and adequate finance from formal financial institutions.

### **b. Legal Obligations**

Small business setups find it difficult to apply for bank loans due to the cumbersome and lengthy paper work and numerous bank visits. Most of the owners of such businesses are not educated enough to understand the legal framework and paperwork so they find it easy to borrow it from easily available sources with less or almost no paperwork.

### **c. Technology**

Major drawbacks of the small-scale sector are the absence of the latest and modern technology which can ensure high productivity. The technology they use is almost obsolete and outdated which is the root cause of delayed and poor production and quality degradation that small scale industries are facing.

### **d. Easy and skilled labour**

Small industrial sector provide employment to a large section of population in the country. Most of the labour under this sector is unskilled and less educated due to the ages and remuneration they get in return of their services. Skilled and educated workforce prefers to work with big organisations which offer them fare and handsome salary with better working environment and numerous other facilities that make them choose them over such small enterprises, hence the sectors suffer from this problem of trained and skilled labour that directly effects their creativity and productivity as well.

### **e. Ineffective Marketing Strategy**

Limited finance and limited resources stops them from making strategies and policies to face competition. Also the human capital in such organisations is not trained enough to make strategies to survive huge competition they are facing from domestic and international companies.

**f. Inadequate Banking Finance**

Banks have a poor record of providing loans to small businesses due to their poor credit record. They had this fear of loan turning into bad debt, they prefer providing loans to institutions here returns are easy and guaranteed.

**g. Poor infrastructure**

Infrastructure problem retards the growth of small scale industries. It involves delays in land clearances, water and power connection etc. Uttar Pradesh is facing a great problem of poor supply that directly effects business.

**h. Raw Material Problem**

Mostly the firms have to bring the raw material from other states. Especially in Uttar Pradesh cost of transportation and logistics is an additional expenditure for the firms. It directly effects production.

**i. Child Labour**

This is a serious issue for the society on the large. These children are result of poverty and illiteracy with no support system and question of survival for their family in majority of cases. These are cheaply available unskilled labour and can't even afford basic facility of a decent living, and thus fall in clutches of exploitation.

**j. Industrial sickness**

Most of the MSMEs are facing the problem of lack of finance, which is important to survive. Many of them are on the verge of getting close.

**VII. Government schemes for Small Scale Industry Development**

As India is emerging as a growing economy in new millennium. Realizing the potential and prospects of small scale industries, its contribution towards countries welfare and development, the government is putting special efforts and attention to support and develop the sector. Some of the schemes for MSME Sector

- a. Performance & Credit Rating Scheme
- b. Marketing Assistance Scheme
- c. International Cooperation (IC) Scheme
- d. Assistance to Training Institutions Scheme

- e. Prime Minister's Employment Generation Programme (PMEGP)
- f. Scheme of fund for Regeneration of Traditional Industries (SFURTI)
- g. Market Promotion and Development Assistance (MPDA)
- h. MUDRA

### **VIII. What SME wants?**

Government policies and schemes designed for SMEs vary in different economies of different countries. These policies may either boost or hinder the activities of small scale industries. The performance of SMEs of any country are the indicator of whether the policies are helping or not. But with the increasing number of sick units and SMEs turning into NPAs, this can be clearly said that, there is a gap between the provider and beneficiaries. In India, after agriculture, MSMEs are the most important sector. However, the government has made several policies for financial problem, technological up gradation and marketing etc. Still MSMEs argue that they hardly have the access to these schemes or they don't know how to avail them. The solution lies in, while in providing financial assistance, SMEs should also be provided think tank and tech support and growth monitoring tools and benchmarks to keep a tab on the progress of the SME and avoid losses of the stake holders.

### **IX. Conclusion**

The MSMEs are the strongest pillars of India economy. They are the best engine for inclusive growth. The government should take special and utmost care of this sector that will directly help to boost the economy .Although the financial products and services offered by government of India are widespread but financial literacy, access to the masses, lack of proper communication channels, lack of awareness of products etc. are the factors that stop them from availing the services that can help them to excel. Moreover there is a strong need of financial literacy (like awareness camps, handbooks, literacy mela, business correspondents, self-help groups etc.)They can only avail the services when they are well aware of them. Secondly banks can play a very important role in improving the health of MSMEs, Banks should come forward and should take pride to cater the requirements of MSMEs. A combine effort of Government, RBI and banks will help to bring the MSMEs within the framework of financial inclusion progressive towards growth.

## References

- [1] Alok Mittal; (2018) "Alternate lending platforms are fixing India's financial inclusion problem, becoming enablers for SME funding [SME Sector]". Publication info: The Economic Times; New Delhi [New Delhi] 12 July 2018.
- [2] Chandratre Suresh Manohar (2017) "Financial study of small scale industries in MIDC Area of Dombivli of the Thane District". Swami Ramanand Teertha Marathwada University. Guide Ashturkar P.B, URL: <http://hdl.handle.net/10603/205518>
- [3] Saikia Babita; (2017) titled, "An Analytical study of rural financing with special reference to microfinance and financial inclusion". Department of Business Administration, Guwahati University. URL: <http://hdl.handle.net/10603/152211>
- [4] Satish Kumar\* and Purnima Rao; (2016) "Financing patterns of SMEs in India during 2006 to 2013 an empirical analysis". Journal of Small Business & Entrepreneurship, 2016 Vol. 28, No. 2, 97131.
- [5] Geete Vishal; (2016) "Impact of microfinance in small scale industries development". Shri Vaishnav Institute of Management, Devi Ahilya Vishwa Vidyalaya, Indore, India
- [6] Charan Singh and Kishinchand Poornima Wasdan; (2016) "Finance for Micro, Small, and Medium-Sized Enterprises in India: Sources and Challenge". Charan Singh RBI Chair Professor Economics & Social Science Indian Institute of Management Bangalore Bannerghatta Road, Bangalore – 5600 76 Ph: 080-26993818 [charansingh@iimb.ernet.in](mailto:charansingh@iimb.ernet.in)
- [7] Kumari, S.L (2013) "Financial Inclusion, as study with reference to nationalised banks in Madurai District, with special reference to rural and semi urban bank". Department of commerce, Madurai Kamaraj University, Madurai-625 021, Tamil Nadu, India. June 2013
- [8] Mandira Sarma 1\* and Jesim Pais 2 ;( 2011) "Financial inclusion and development". Jawaharlal Nehru University, New Delhi, India. Institute for Studies in Industrial Development, New Delhi, India. Journal of International Development J.Int. Dev. 23, 613–628 (2011) published online [9] May 2010 in Wiley Online Library ([wileyonlinelibrary.com](http://wileyonlinelibrary.com)) DOI: 10.1002/jid.1698
- [10] Anil Bharadwaj ;( 2002) "Reforms and small-scale industries in India, Global business review", 3:2(2002) SAGE publications, New Delhi/Thousand oaks'/London.
- [11] <https://msme.gov.in/know-about-msme>
- [12] <http://www.dcmsme.gov.in/schemes/sidoscheme.htm>
- [13] [https://www.rbi.org.in/scripts/FS\\_Speeches.aspx?Id=1033&fn=2754](https://www.rbi.org.in/scripts/FS_Speeches.aspx?Id=1033&fn=2754)
- [14] [https://www.rbi.org.in/scripts/FS\\_Speeches.aspx?Id=1024&fn=2754](https://www.rbi.org.in/scripts/FS_Speeches.aspx?Id=1024&fn=2754)
- [15] [https://www.rbi.org.in/scripts/FS\\_Speeches.aspx?Id=1033&fn=2754](https://www.rbi.org.in/scripts/FS_Speeches.aspx?Id=1033&fn=2754)
- [16] [https://www.indiansmechamber.com/challenges\\_to\\_msme.php](https://www.indiansmechamber.com/challenges_to_msme.php)