

MAKE INDIA INNOVATIVE AND COMPETITIVE: ROLE OF MSMEs

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ABSTRACT

“Make in India” an ambitious campaign was launched by Prime Minister, Narendra Modi on 25 September 2014, with an aim to turn the country into a global manufacturing hub. He has launched this campaign to encourage companies to manufacture their products in India, aiming to redesign manufacturing sector as a key engine for India’s economic growth. Current study focuses on highlighting the role of MSMEs in the “Make in India” initiative. Quantitative data regarding this has been collected using various reports like Reserve Bank of India Database on Indian Economy, Database of Department of Industrial Policy and Promotion and report of CII’s 13th manufacturing summit 2014. It has been analyzed that the key area of progress for India would be the development of its MSMEs to achieve and manage scale effectively. Our supply chains are over-dependent on MSMEs. The MSME sector employs over 80 million people in 36 million units, and contributes 45 percent of the manufacturing output. However our MSMEs are struggling due to lack of access to investment. According to a study conducted by the US-based Entrepreneurial Finance Lab (EFL), a credit gap of 56 percent exists in the MSME finance sector in India; while demand is estimated to be INR 28.03 trillion, the supply finance provided only INR 10.39 trillion, as of July 2014. It has also been studied that how MSME sector is recognized as the key engine for growth to promote entrepreneurship across the country.

Keywords: *Economic Growth, Employment, Make in India, MSMEs.*

INTRODUCTION

The Prime Minister Narendra Modi launched ‘Make in India’, a major national initiative on 25 September, 2014 focuses on making India a global manufacturing hub. Key thrust of the program would be on cutting down in delays in manufacturing projects clearance, develop adequate infrastructure and make it easier for companies to do business in India. The 25 key sectors identified under the program include automobiles, auto components, bio-technology, chemicals, defense manufacturing, electronic systems, food processing, leather, mining, oil & gas, ports, railways, ports and textile. The objective of the mega program is to ensure that manufacturing sector which contributes around 15% of the country’s Gross Domestic Products is increased to 25% in next few years. According to statement given by Rana Kapoor, President of ASSOCHAM, ‘The MSME sector is critical to our nation’s economic growth. Employing nearly

8 crore people, MSMEs are the vehicle for inclusive growth and an incubator for entrepreneurs. An enabling business environment with strong focus on leveraging technology can help unleash the true potential of the sector. India needs a focused policy impetus to improve the competitiveness of MSMEs and incentivize exports to broad base and actualize the benefits from “Make in India” initiative.

The micro, small and medium enterprises have been defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, in terms of their investment in Plant and Machinery, as under:

For the Manufacturing Sector	
Enterprises	Investment in Plant and Machinery
Micro Enterprises	Does not exceed Rs. 25 lakh
Small Enterprises	More than Rs. 25 lakh but does not exceed Rs. 5 crore
Medium Enterprises	More than Rs. 5 crore but does not exceed Rs. 10 crore
For the Service Sector	
Enterprises	Investment in Equipment
Micro Enterprises	Does not exceed Rs. 10 lakh
Small Enterprises	More than Rs. 10 lakh but does not exceed Rs. 2 crore
Medium Enterprises	More than Rs. 2 crore but does not exceed Rs. 5 crore

The Micro, Small and Medium Enterprises (MSMEs) contribute about 7-8 per cent of India’s GDP, 45 per cent of the manufacturing output and 40 per cent of the exports. They are recognized as the engine of growth for the economy. After agriculture, MSME sector employs the largest number of persons. MSMEs are widely dispersed throughout the country and produce a diverse range of products catering to various segments of the market. The geographic spread, diverse product range and potential for innovation and employment generation make them extremely important in the context of economic growth with equity and regional balance.

LITERATURE REVIEW

The comprehensive literature demonstrates that MSMEs are necessary for sustained economic growth and development of any economy including India. To justify the need of present study, following literature has been reviewed:

Jaswal (2014) identified the leading role played by Micro, Small and medium enterprises (MSMEs) in propelling economic growth, sustaining livelihood and in promoting equitable regional development. He found that the most important contribution of this sector is towards employment generation which is second only to agriculture in India. The experiences of recent year's shows that employment in agriculture sector has been declining as well as large industries are also experiencing jobless growth. Singh et al. (2012) analysed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target. Dixit and Pandey (2011) applied co integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP. Bargal et al. (2009) examined the causal relationship among the three variables GDP, SSI output and SSI exports and also have compared the performance parameters of SSIs in the pre and post liberalization era. The study found that the annual average growth rate of different parameters of SSIs have declined in the period of nineties visà-vis the pre-reform years. There is an absence of any lead-lag causal relationship between exports and production in small-scale sector and GDP of Indian economy. Subrahmanya (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment. Mali (1998) observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighbouring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.

OBJECTIVES OF STUDY

Present study focuses on the contribution of "Make in India" campaign in turning the country into global manufacturing hub. Author has also focused his attention on the role of MSMEs in

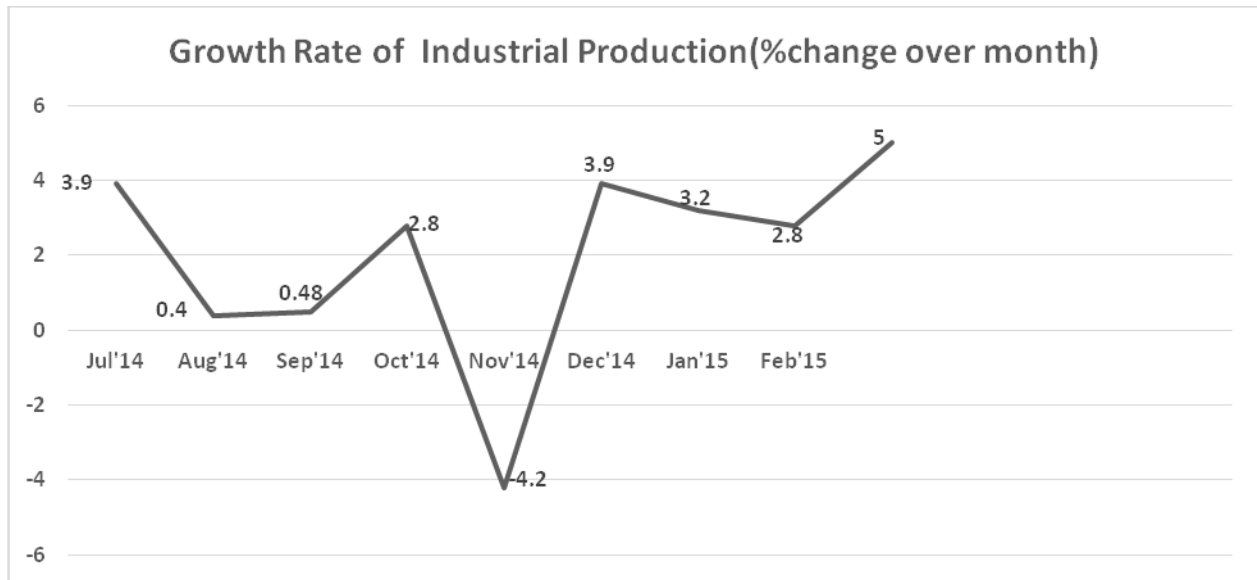
“Make in India” initiative and increase in financial contribution towards MSME’s under “Make in India” campaign.

METHODOLOGY

This paper examined the role of Make in India in MSMEs growth and making India a global manufacturing hub. Data for the same was collected secondary sources including various government reports like annual report of MSMEs, Database of Department of Industrial Policy and Promotion and Reserve Bank of India Database on Indian Economy. In addition to that data was collected from various journals, magazines and report of CII’s 13th manufacturing summit 2014.

ROLE OF “MAKE IN INDIA” IN GROWTH OF MANUFACTURING SECTOR

Prime Minister Mr Narendra Modi has launched the “Make in India” campaign, targeted to transform India into a manufacturing leader. India’s manufacturing sector, with a 15% share of overall GDP, compares poorly with peers like Malaysia, Thailand and Indonesia. India also suffers from some critical drawbacks like a lack of an enabling infrastructure, poor perception of India in terms of ease of doing business, and a lack of proven ability to compete at a global scale. According to the CII-BCG Manufacturing Leadership Survey 2014, while 44 % CEOs feel highly confident in the “Make in India” campaign, they also unanimously agree that such a goal would need bold and sustained measures by the both the public and private sectors. The manufacturing sector in India (including the MSME segment) grew at an annual average growth rate of 9% during the period 2005-06 to 2012-13. In the last two years, the growth rate in the manufacturing sector has fallen steeply. The Economic Survey reports that in 2009-10 and 2010- 11, the growth in manufacturing was 11.3% and 9.7% respectively, but it fell sharply to 2.7% in 2011-12 and to 1.9% in 2012-13. Central Statistical Organization (CSOs) recent trends in manufacturing sector in the country, as reflected in the monthly Index of Industrial production (which includes mining and electricity generation also) are indicative of a continuing slowdown in the industry.



22 sub-sectors Production, National Industrial Classification (NIC)

In India, industrial production measures the output of businesses integrated in industrial sector of the economy such as manufacturing, mining, and utilities. Industrial Production in India increased 5 percent in February of 2015 over the same month in the previous year. It is the highest gain in nine months due to a 5.2 percent increase in manufacturing and a 2.5 percent rebound in the mining sector. Industrial Production in India averaged 6.54 percent from 1994 until 2015, reaching an all-time high of 20 percent in November of 2006 and a record low of -7.20 percent in February of 2009.

Impact on Employment

A major concern arising from the low share of the manufacturing in GDP is regarding employment. Employment in the manufacturing sector, in fact, declined from 55 million in 2004-05 to 50 million in 2009-10. This trend does not augur well for the future, particularly in the context of the Planning Commission estimates where the manufacturing sector would need to provide 70 million additional jobs in the next 15 years in order to cater to the growing work force.

The estimated manufacturing output for the years 2008-09, 2009-10 and 2010-11, at constant prices was Rs. 33.73 lakh crore, Rs 37.55 lakh crore and Rs 43.02 lakh crores respectively. Out of the above the contribution of MSME manufacturing sector is estimated at Rs. 13.76 lakh crore, Rs.14.88 lakh crore and Rs.16.56 lakh crore respectively. This indicates a declining trend in share of MSME manufacturing in total manufacturing output of the country. This share has declined over the period from 40.79 % in the year 2008-09 to 38.48% in the year 2010-11.

Likewise, the share of MSME manufacturing in GDP has also declined from 7.73 percent in 2006-07 to 7.42 percent in 2010-11.

The SME sector contributes about 45% to the manufacturing output, 40% of the total exports, and offers employment opportunities both for self-employment and jobs, across diverse geographies. A healthy rate of growth shall be ensured for the overall growth of the manufacturing sector as also the national economy by policy interventions in areas like manufacturing management, including accelerated adoption of Information technology; skill development; access to capital; marketing; procedural simplification and governance reform.

The Handicrafts Sector plays a significant & important role in the country's economy. It provides employment to a vast segment of craftsperson in rural & semi urban areas and generates substantial foreign exchange for the country, while preserving its cultural heritage. Total Working Enterprises and Employment available in these Enterprises are as follows:

S. No.	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)
1.	2001-02	105.21	249.33
2.	2002-03	109.49	260.21
3.	2003-04	113.95	271.42
4.	2004-05	118.59	282.57
5.	2005-06	123.42	294.91
6.	2006-07	361.76	805.23
7.	2007-08	377.36	842.00
8.	2008-09	393.70	880.84
9.	2009-10	410.80	921.79
10	2010-11	428.73	965.15
11	2011-12	447.66	1,011.80
12.	2012-13	467.56	1,061.52

Source: Economic Census, Central Statistics Office, MOSPI

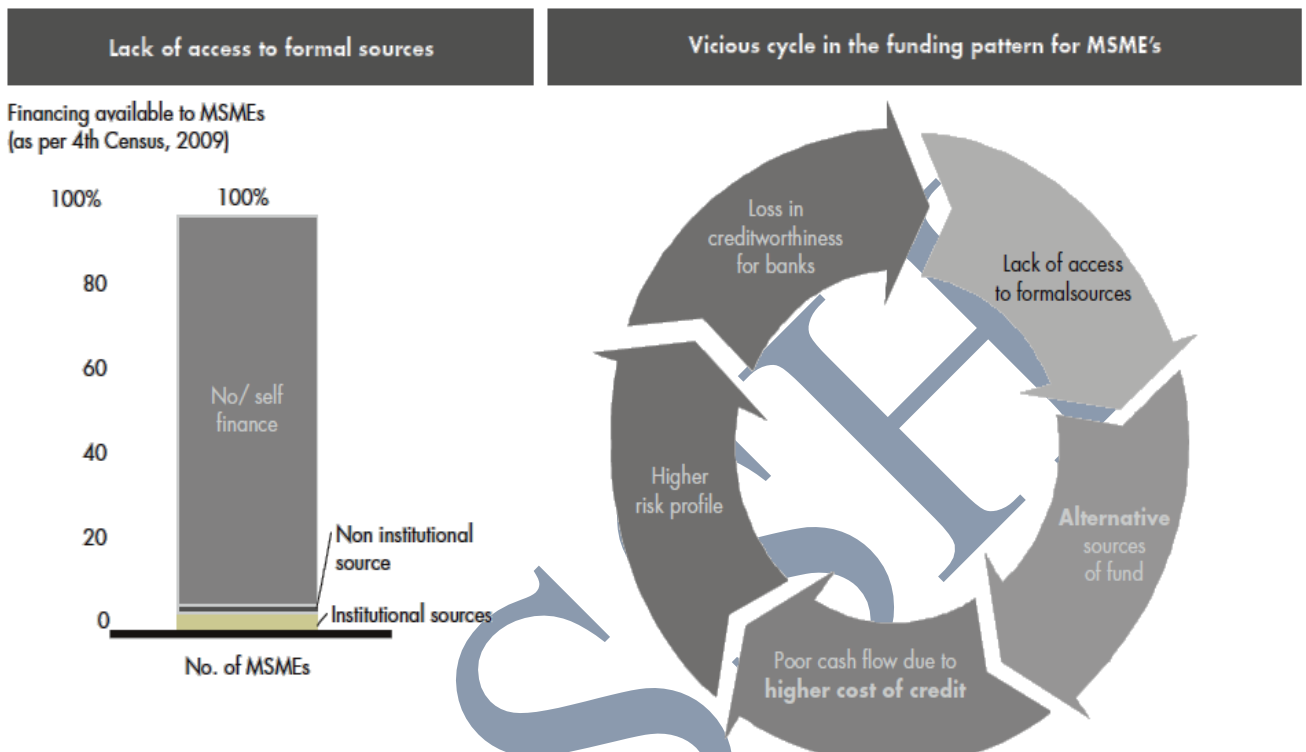
Role of MSMEs in 'Make in India' campaign

New policies were framed under "Make in India" campaign to facilitate the expansion of Micro Small and Medium Enterprises (MSME) and increase the focus on innovation. It includes the launch of INR 10,000 crores venture capital fund dedicated to MSMEs. The government has made strategic visits overseas to drive increased investment (including a visit to Japan, where the government has committed to investments in India of USD 35 billion, and to the US where a US-India business body has committed to a USD 42 billion investment in India over the next two to

three years). Another key area of progress for India would be the development of its SMEs to achieve and manage scale effectively. Our supply chains are over-dependent on MSMEs. The MSME sector employs over 80 million people in 36 million units, and contributes 45 percent of the manufacturing output. Issues connected with credit availability - adequacy, timely availability, cost and mortgages - remain a continuing concern for MSME associations. This is not surprising because, with little promoter's capital, a small unit is entirely dependent on credit to set up its enterprise. The Mitra Committee report has summarized the vicious cycle of credit issues in the following diagram, where the cycle starts from lack of access to formal sources of finance- which leads to tapping alternate sources of funds that are costly- higher cost of credit results into poor net cash inflow- which increases the risk profile of the small unit-and reduces her credit worthiness- which in turn further aggravates lack of access to formal sources of finance. Recognizing the crucial role of bank finance for the MSMEs, the PM's Task Force on MSMEs recommended specific and monitor able targets for credit disbursement by Scheduled Commercial Banks in the Micro and Small Enterprises sector. Our SMEs are struggling, credit defaults are the highest for MSMEs amongst all credit classes—standing at around 5 percent of advances for the last three years. Due to a lack of penetration and data-led approach, a sizeable credit gap exists in India for businesses, including for Micro, Small and Medium Enterprises (MSMEs). According to a study conducted by the US-based Entrepreneurial Finance Lab (EFL), a credit gap of 56 percent exists in the MSME finance sector in India; while demand is estimated to be INR 28.03 trillion, the supply finance provided only INR 10.39 trillion, as of July 2014.

Loaning to MSMEs is described as being costly for lenders because the processing of each application requires intensive fieldwork and high levels of scrutiny, explaining market under-penetration. According to an EFL estimate, 92 percent of MSMEs lack access to formal sector finance. This leads to small industries resorting to take credit from individuals and unregistered organizations. In order to bridge the data gap and facilitate broad-based access to credit, several countries (including Australia, New Zealand and Mexico) have set up modern collateral registries re-cording all types of secured transactions and movable assets. Aiming at facilitating access to finance and credit for SMEs, CII is setting up an 'Online Finance Facilitation Centre for SMEs' with the objective to provide advisory and credit facilitation support to SMEs. Moreover, INR 100 billion of venture capital fund and a nation-wide incubator are being established to encourage entrepreneurship and facilitate access to credit.

MSMEs struggle to focus on formal sources of debt



Source: Fourth All India Census of MSME sector Report, Key stakeholder Interviews

Requirement of funds is the main area of concern for MSME regarding the availability of funds. It is paradoxical that despite the government's push and concessions for the sector, funds available to MSMEs are quoted at much higher rates as compared to those for a large corporate.

CONCLUSION

'Make in India' is a major national initiative which focuses on making India a global manufacturing hub. This paper analyzed the contributions made by the MSME sector in industrial production and promotion of employment through working enterprises across the country. A US-based Entrepreneurial Finance Lab (EFL) found a credit gap that exists in the MSME finance sector in India. Government is taking various initiatives to ensure credit availability to the MSMEs while upgrading the technology to increase the standards of products. It stressed the need to make the sector attractive for capital investment to strengthen existing enterprises. Government is committed to providing all possible support to promote and encourage MSMEs in the country by providing a sustainable platform for growth and development in terms of productivity, wide range of products, and better availability to finance, world class marketing strategies and international competitiveness. MSME segment will play a key role in domestic manufacturing in the coming days and will lead the 'Make in India' program towards success. Government would be coming up with quality up gradation schemes

for the MSME sector so that these products are able to compete and be preferred over those countries like China which are flooding the market. One of the major problem about MSMEs is the gap between requirements and availability of funds, this gap should be reduced. A good credit rating from an external credit rating agency is a tool to reduce the rate of interest to some extent, as the MSMEs with a higher credit rating are in a better position to negotiate softer rates of interest from bankers

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