

Chapter 8

MSMEs in India: A Vision for the Future

Nidhi Gautam

TERI School of Advanced Studies, India

Akash Sondhi

TERI School of Advanced Studies, India

ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) have emerged as a vehicle of economic growth in several emerging countries in the world. The SMEs significantly impact nations' growth in terms of their contribution to exports, employment generation, and Gross Domestic Product (GDP). It has been witnessed that these small enterprises help countries to sustain in times of economic recession. This chapter presents the significance of MSMEs, a critical review of the challenges they face, and the futuristic vision which is required by these firms so as to multiply their economic contribution in special reference to India. The chapter would serve as a resource for policy makers while bringing attention of key stakeholders to the potential of SMEs in paving the future growth curve for emerging economies in the global context. Through a critical review of secondary literature, the chapter also discusses the vision for the future which is needed for SMEs to achieve the various long-term objectives keeping in view the dynamic external environment where the world is a global village.

INTRODUCTION

The abbreviation SME and MSMEs are synonymously used for Small and Medium Enterprise and Micro Small and Medium Enterprise respectively. MSME are crucial for the economic development of a country. Indian MSMEs have come a long way and requires introspection into the factors which have enabled them to boost their competitiveness impede their performance.

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Backed by secondary literature review, personal communication, and insights from interaction with experts and MSMEs this chapter presents the status of MSME in India in the context of their evolution, current status, its challenges and multidimensional efforts toward innovation, accelerated and sustained growth and a vision for the future.

The Chapter aims to discuss the vision for future which is needed for SMEs to achieve the various long-term objectives keeping in view the dynamic external environment where world is a global village. This Chapter would help policy makers, academia and researchers to understand the growth curve of MSMEs operating in one of the fastest emerging economies. In addition to be an important literature to understand the type of policy initiatives which have been adopted to boost productivity of MSMEs, successful measures, and for associated failure. It will also help to highlight some of the best practices which other emerging economies can adopt for SMEs in their countries.

BACKGROUND

Countries and agencies across the world have adopted different parameters for defining SMEs. World Bank defines SMEs as those enterprises with a maximum number of 300 employees, \$ 15 million in annual revenue and \$15 million in assets. As per the European Union (European Commission, 2015) SMEs are defined based on three major thresholds namely head count, annual turnover and annual balance sheet total. OECD (2005) defines SMEs as “non-subsidiary independent firms which employ fewer than a given number of employees”. However, this number also largely differs across countries. The definition of MSME varies between countries and often within the same country (Das, Singh and Rao, 2006; Beck, 2013; Gopal and Ramesh, 2014). In some countries the definition of the sector based on only number of employees while others define based on asset value or annual revenues (Table 1). Further, even the composition of SME/MSMEs differs widely across countries. For instance, some countries, like UK, China, considers only small and medium enterprises under MSME sector while some, like Malaysia, Australia, Indonesia, India, considers micro, small and medium enterprises as part of SMEs. The wide disparities in SME definitions have led to differences in MSME measurement and understanding resulting in formulating the MSME policy virtually random (Gibson & Van der Vaart, 2008).

In China, which is one of the fastest developing economies in the world has broadly defined its SME sector in terms of only small and medium enterprises, however, on the other hand it specifies the various sectors in detail such as industry, retail, transport, construction etc (Hoffman, 2017).

In India, MSMEs are defined as per the provisions of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. They are classified under two classes namely manufacturing enterprises and services enterprises depending on their investment in plant and machinery (in case of manufacturing enterprises) and investment in equipment (in case of services enterprises) (Ministry of Micro, Small and Medium Enterprises, Govt. of India, 2019) (Refer Table 2).

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