



GROWTH OF MSME AS A MEDIATION VARIABLE IN FINANCIAL INCLUSION: EVIDENCE FROM UTTAR PRADESH

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Abstract

Micro, small and medium enterprises (MSMEs) is one of the important variables in a country's economy. The MSME sector encourages economic growth, creates jobs, and plays a role in maintaining economic stability. The sector has been regarded as an instrument of economic growth and social development in developing countries like India. The labour intensity of this sector is much higher than that of large enterprises. Most of the MSMEs are credited with generating the highest growth rate of employment and account for a major share of industrial production and exports. This sector caters to the needs of small entrepreneurs with lower capital and thus renders service to the rural and backward classes who are empowered to contribute to the overall national growth.

MSME sector forms the backbone of economic progress and development of any State. This sector contributes 8% of the country's GDP and employs 40% of the total population of India i.e. 69 million people through over 26 million enterprises producing over six thousand products which account for the second largest workforce after agricultural sector. They constitute 90% of the total industrial units and are responsible for 45% of industrial output and 40% of the total exports. The labour intensive nature and its geographical distribution results in better opportunities for both self-employed and job seeking people promoting equity and inclusive growth. The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. MSME sector in India is heterogeneous in terms of size of enterprises, variety of products and services produced and the level of technology employed. MSME sector is a strategic asset of the economy of the country.

Key words: *MSME, Financial Inclusion, economic growth, economic diversification, growth, and job creation*

Introduction

Micro, Small and medium enterprises (MSMEs) plays an important role in the development of the country. They are considered as the engine of economic growth and being as the pillar for the development. These enterprises contribute as a major portion of industrial production, exports etc. to contribute towards a country's GDP. The key benefit is to create employment across the country and fascinate a stable economic and social development to the country. The MSME sectors in India, however, have been changing over time, mostly through changes in government policies. Despite its relevance, the MSME sectors have for long faced various obstacles to growth. MSMEs are the backbone of India's economy. However, for India to grow exponentially, need MSMEs to mature into large firms in the decade to come. Advanced economies tend to have a larger share of employment in large firms than other countries. These firms are usually more productive and have better market linkages.

MSMEs financial inclusion is at the core of the economic diversification, growth, and job creation challenges in developing country like India. Though the limited access to finance unequivocally



remained a constraint to Micro, Small, and Medium Enterprises (MSMEs), different data revealed that the sector accessed relatively a sufficient amount of funding. However, due to biased and irrational decision-making problems, accessed finance could not bring about vertical growth in the sector. Since the performance of MSMEs is a function of different factors like financial services and government support, these factors could be suppressed or exhilarated by other mediating variables.

The MSMEs contribute significantly in the development of Indian economy through export production, domestic production, low investment requirements, operational flexibility, technology oriented enterprises etc. The SMEs are complimentary to large industries operating in the economy & contribute enormously to the socio-economic development of the country. On an average this sector has almost 36 million units that provide employment to about 80 million individuals. This sector through the production of 6000 products contributes 8% to GDP of the country. The Ministry of Micro, Small & Medium Enterprises of Government of India has the responsibility of designing policies, projects & schemes for the development and promotion of these MSM enterprises.

MSMEs – its importance

Micro, Small and medium enterprises are an integral part of the economy. They provide employment opportunities to the weakest and poorest strata of the society, giving them a way out of the perpetual poverty that they seem doomed to. MSMEs tap into the raw, latent entrepreneurial potential of the country acting as seedbeds of innovation. In the pre independence period organized industrialization did not gain much traction but after independence ‘in all Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises. They were termed effective tools to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills’ (MSME Ministry Overview, 2009).

MSMEs are important for the development of any economy given their role in job creation and their ability to foster entrepreneurship. The units contribute significantly to the manufacturing output, employment generation and exports of India. This sector has consistently registered a higher growth rate (6.5% on gross output for financial year 2012-13) compared to the rest of the industrial sector. Currently, there are 44.7 million Enterprises spread across the country employing 40% of the total population. 10.6 million People were working in this sector during 2001-02 whereas the number grew to 101 million people in 2012-13. More and more people are getting employed through new MSMEs every year, currently making up for largest workforce after the agricultural sector. They cater to a large band of customers by producing wide range of products from traditional to high-tech level. The leading industry in the MSME Sector is Retail trade constituting 39.85% of industries followed by Manufacture of Apparel (8.75%), Manufacture of Food Products and Beverages (6.94%) etc.

Status of MSMEs in India

MSMEs represented the model of economic development in India which emphasized high contribution to domestic production, significant export earnings, low investment requirements, employment generation, effective contribution to foreign exchange earning of the nation with low import-intensive operations. The contribution of MSMEs has been remarkable in the industrial development of the country.

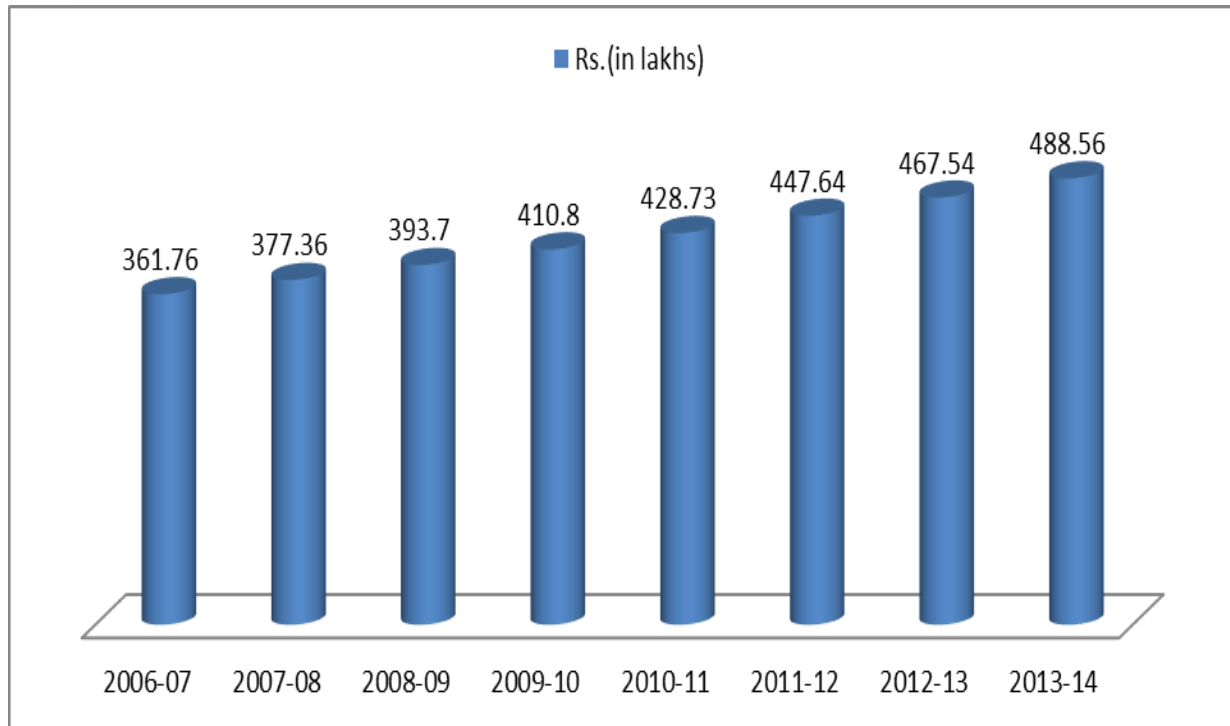


Figure – 1 Growth Pattern of MSME Units in India

Source – Government of India Ministry of Micro, Small & Medium Enterprises, Annual Report 2014-15

Figure-1 shows the growth pattern of MSMEs units in India, where 361.76 lakhs units were recorded in 2006-07, 377.36 lakhs units in 2007-08, 393.70 lakhs units in 2008-09, 410.80 lakhs units in 2009-10, 428.73 lakhs units in 2010-11, 447.64 lakhs units in 2011-12, 467.54 lakhs units in 2012-13 & 488.56 lakhs units in 2013-14 respectively in increasing trend. The importances of MSME sector in the growing Indian economy have long been recognized. However, there are some major hindrances to growth such as complicated bureaucratic registration procedures, difficulty in accessing finance and working capital loans from banks and other institutional sources, difficulty in acquiring information and management skills. Though efforts to block these gaps in the business environment for MSMEs have been there yet their nature was fragmented.

Status of MSMEs in Uttar Pradesh

To promote the micro, small and medium enterprises (MSME) sector, Uttar Pradesh has mandated 25 per cent procurement of goods produced by MSMEs by the state government departments and public sector undertakings (PSU) from the state MSMEs.

The UP MSME procurement policy 2014 is expected to provide a major boost to the sector, which has been weathering tough competition and general economic slowdown in the recent times (UP MSMEs procurement policy 2020).

MSME sector is the backbone of the state's industrial growth where government could act as a catalyst by promoting the MSME clusters (CM Uttar Pradesh, November 9, 2018)

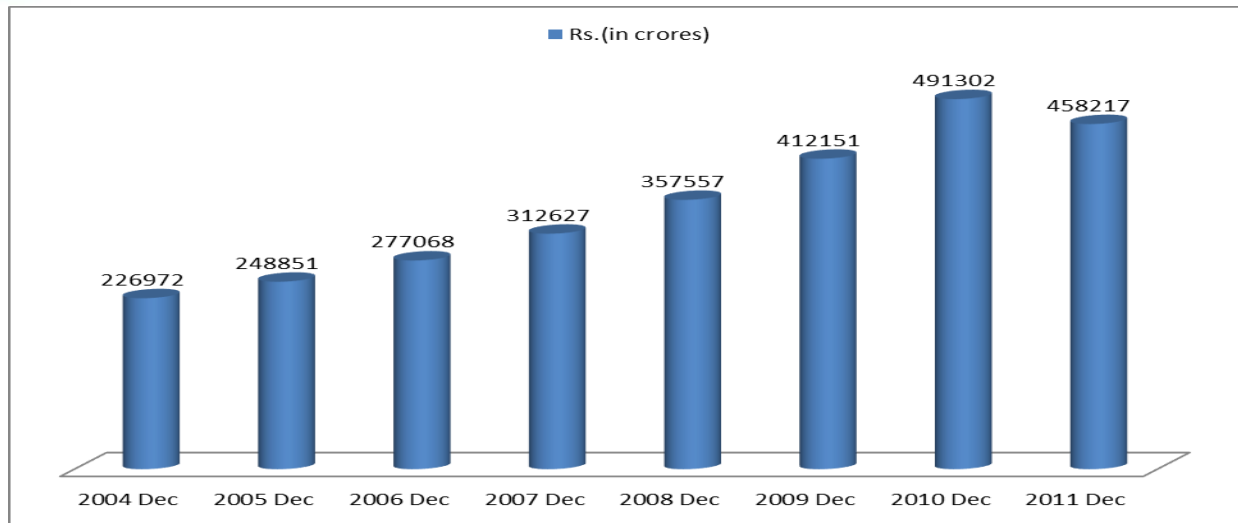


Figure 2: Growth Pattern of State Gross Domestic Product (SGDP) in Uttar Pradesh (At current price at factor cost)

Source- Institute for competitiveness analysis

It is evident from Fig.2 that turnover for the growth of SGDP of UP increased to INR 491302 crores in 2010 as against INR 412151 crores in 2009 making a steep rise of 19.2 percent. It dropped to INR 458217 crores in 2011 making a steep heavy fall of 7.2 percent with a drastic gradient fall of 63.15 percent. This may be due to the financial constraints and the policies of the state government. The State also has marked income inequality and MSME sectors face some major hindrances to growth because complicated bureaucratic procedures including disbursement of finance and working capital loans from banks and other institutional sources. Ease in access of information and management skill is another important issue in this direction.

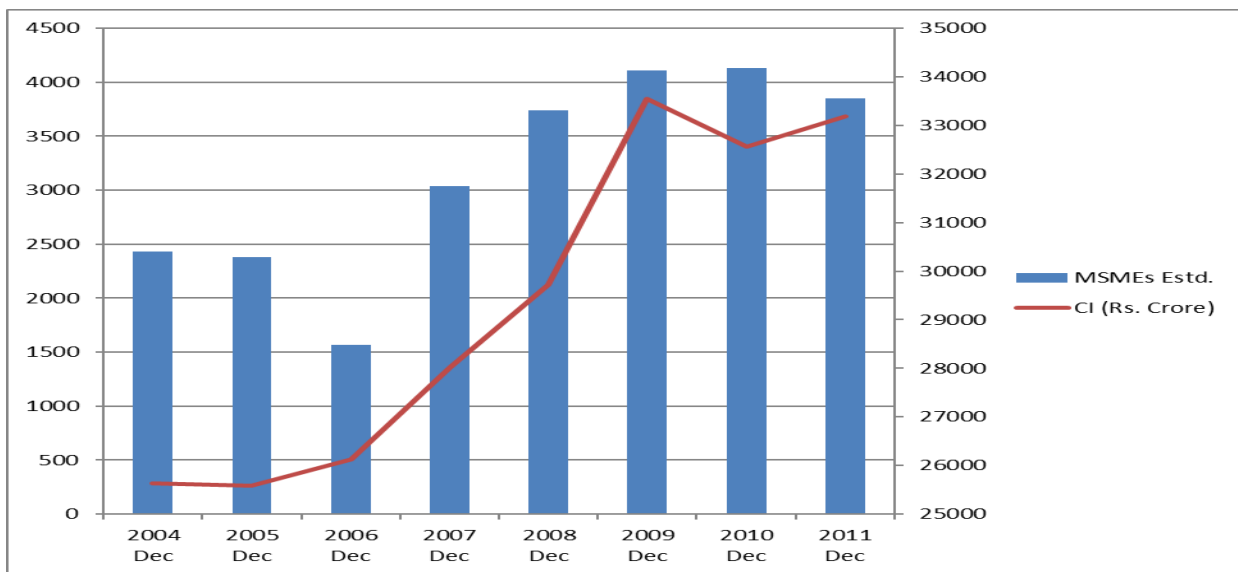


Figure 3: Growth Pattern of Capital Investment & MSMEs in UP

Source: Directorate of Industries, Kanpur



It is evident from Fig 3 that there has been a steep rise in capital investment till 2009 while during these periods the state saw a decrease in the number of units between 2004 and 2006 and then a sudden fast increase till 2009. It clearly shows that the investment done by the state to boot growth of MSME had a positive impact during the period between 2006 and 2009 and it saw some negative impact before 2006. A mixed trend followed after 2009 and continued till 2011. The up and down of Capital Investment affected the financial support to MSMEs in UP and also MSMEs contribution of turnover for GSDP in Uttar Pradesh.

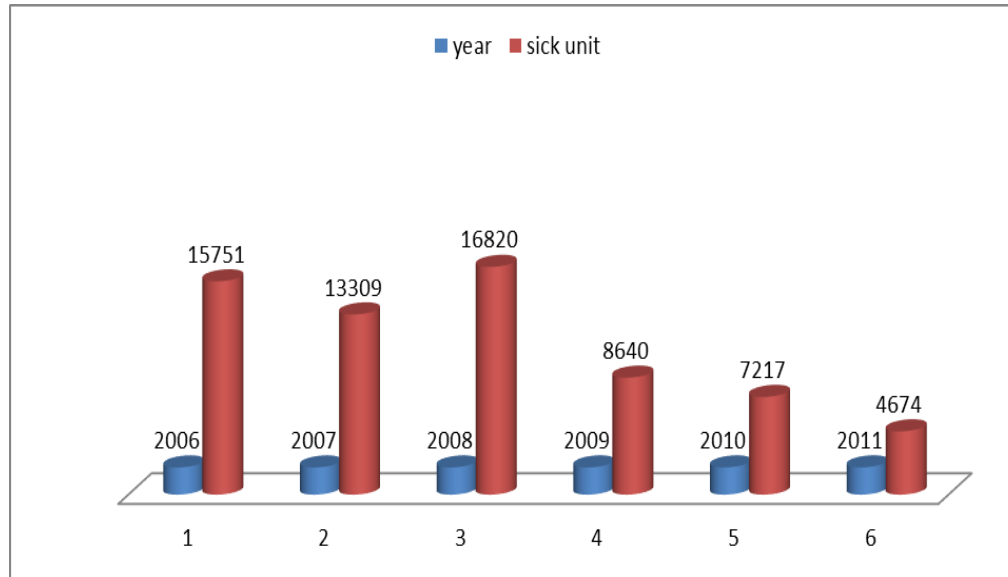


Figure 4: MSMEs sick units in Uttar Pradesh

Source: Govt. of India, Ministry of Commerce & Industry, Department of Industrial Policy & Promotion.

Times of India, Nov. 25, 2010.

It is clear from fig. 4 that MSME unit in Uttar Pradesh showing continuously sick from 2006 to 2011 while during these periods' sick units decreases between 2006 and 2007 and then a sudden fast increase till 2008 and then the trend shows continuously in decreasing trend up to 2011. The up and down of sick units affected the contribution of turnover for SGDP in Uttar Pradesh.

It is evident from the above analysis that there exists a need to-

- Study the growth and development of Micro, Small and Medium enterprises and its prospects in the light of the funding provided by UPFC under the Central and State Government policies and its nature of utilisation. .
- To help the policy makers to Develop some causal system to assist policy makers to formulate positive policies in the light of changing conditions to resolve the requirement of the enterprises in the interest of economic development of the State.

Conclusion

Finance is a major obstacle in the growth of micro, small and medium enterprises. The lower and middle class is capable of driving itself out of poverty. MSMEs play a pivotal role in Indian economy, as it contributes noticeable to the manufacturing output, employment and exports of the India. But there are several challenges faced by MSMEs hinder the growth opportunities. Hence, it is extreme responsibility of the government of India to design policies and implement it to overcome the problems



of MSMEs. Statistics presented in this study and other published reports suggests proactive action to be taken in this regard so it can safeguard MSMEs from large companies and cater to healthy growth of MSMEs. Further government also has to arrange for various alternatives for financing of MSMEs. To become backbone of global manufacturing giants, MSMEs must be technologically and skillfully upgraded. A well formulated package offering support to MSMEs is essential to build on their strengths in the future and help the internationalization process of the country. Government has to start implementing the above strategies for strengthening and upgrading the production potential and export orientation of MSMEs.

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