HOW MSME CAN TRANFORM INDIA

INTRODUCTION

India is currently in the transition stage of becoming fully developed country from developing country. The problem though is that this transition is taking too much time. So, what can be a logical solution so that India may be able to achieve the status of a developed nation.

India ranks fourth in GDP, but real wealth depends on how ordinary citizens contribute and boost consumption, as the economy is largely consumption driven. The major concern here is that India is nowhere near the first ten economies of the world regarding per capita income and where the per capita income at USA is approximately USD 90000, China is USD 13000 and Germany is at USD 63000 and finally India is standing at USD 2800. Here we need to know that the number of GDP is not enough to understand the health of any nation and many such data should be looked at before judging the health of any nation.

The more surprising factor here is that LUXEMBOURG stands at no. 1 position regarding the per capita income with USD 140000, Ireland with USD 129000 in second position and Switzerland with USD 111000 at third position. So, the interesting part here is that USA is ranked 8th and China with GDP placed at the second position is not even in first 10 countries. So, it is apt to understand that the GDP (nominal or real) number itself is not enough to understand about the complete health of any nation.

Analyzing Economic Strength: The Role of GDP and Per Capita Income

To gain a clearer understanding of a country's economic strength, it is essential to consider both its overall Gross Domestic Product (GDP) and its per capita income. For instance, the United States leads with a $31 trillion economy and a per capita income of $90,000. China follows, with an economy sized at $20 trillion and a per capita income of $13,000. Germany is next, with a $5.33 trillion economy and $63,000 per capita income. These figures place the United States, China, and Germany at the top three positions globally in terms of GDP.

This combination of a large economy and high per capita income explains why the United States is often regarded as a superpower. The substantial size of its economy, along with the significant purchasing power of its citizens, demonstrates both national strength and consumer capacity. Consequently, the United States becomes an attractive market for exports.

However, it is important to note that these factors alone do not fully define a nation's global competitiveness. Many U.S. companies manufacture their products internationally, particularly in China, to take advantage of lower production costs. This strategy allows them to innovate and develop new technologies at home while keeping manufacturing expenses down, as producing goods domestically in the United States would result in higher costs and less competitive products in the global market.

Why India is important to the world?

India is currently termed as the youngest country of the world. This is because India's median age is currently at 29 years. This means that approximately half of India's population is approximately 29 years old whereas Japan is standing at 51 years, USA at 39 years and China at 40 years. In fact, major countries of the world are currently standing near to 40 years of median age. This gives an edge to India since most of the population is around 29 years of age and dependency ratio of India is much better than any other country. Secondly the large young population is most suitable for serving as a great advantage for MSMEs & all large industries.

UNDERSTANDING MSME OF INDIA

The Micro Small & Medium enterprise (MSME) is the growth engine of India & backbone of India's economy. The contribution of MSME is phenomenal since it contributes 30% in Indian GDP and 45% in exports with an employment generation of about 35 Crores from 7.94 crore enterprises as per Udhyam registration. Out of total 7.94 Cr. units there are 7.89 Cr. micro enterprises, 4.91 lakhs small and 37057 medium enterprises. The MSME in 2010 were approximately 3.61 Cr. and this almost doubled in 2026 to about 7.71 Cr. enterprises with employment generation of about 9.6 Cr. in 2010 to about 35 Cr. in 2026.

Although the MSMEs have doubled in numbers from 2010 till 2026 and raised substantial employments which has tripled in 2026 from 2010 but still the contribution in the GDP and exports has relatively been constant. The main reason is that about 97% of the total MSME belong to micro segment and this has not able to change substantially since 2010 and the increase in numbers of small & medium enterprise till 2026 has not drastically changed. As per the Udyam registration the enterprises in manufacturing are 1.66 Cr., services are 2.89 Cr. and enterprises in trade activity are 3.39 Cr. so this means that the major enterprises belong to trade activity and hence this proves as to why the historical data of MSME regarding their contributions in GDP and exports has not changed much since 2010 till now.

DETERRENTS TO MSME DEVELOPMENT

The main deterrent to the development of the MSME of India is that there are still about 97% of MSME belonging to micro segment and the number of small & medium enterprises have not been able to increase at faster pace.

The factors which have restricted the scale up of MSME of India are

1. **Financial issues** – Lending to MSME at higher lending rates and access to collateral free loans (CGTMSE) to MSME are extremely difficult to get.
2. **Payment cycle** – The payment cycle has been disrupted during several occasions which were during Demonetization, GST implementation, COVID19 etc.
3. **Compliance burden** – The compliance burden on the MSME has increased year after year with changes related from implementation of GST and thereafter more than thousand changes in the GST law & IT law has remained as a big challenge for the MSME to coup up with the existing law.

1. **BIDDING PROCESS** – The existing GEM portal bidding procedure and similar mechanisms present significant challenges for MSMEs. The multiple qualification clauses required for participation in the bidding process act as substantial impediments. Currently, India lacks a system that enables procurement from MSMEs based on product quality while ensuring purchases are distributed collectively among all eligible MSME bidders.
4. **INNOVATION & TECHNOLOGY** – The MSME do not have easy access to buy high end and latest advance equipment & machineries. The cost of new technology is too high for the MSMEs to adopt where the support from Govt. is minimal and moreover the ease of access to the policy of the govt. is extremely challenging to get. There is no easy mechanism where the MSME can get special incentive for doing innovation in their enterprises.
1. **Skill** – The workforce in India faces challenges regarding skill levels, as skill development programs have not consistently produced industry-ready employees. With technology advancing rapidly, it is increasingly difficult to cultivate a workforce capable of adapting swiftly to the latest industry standards and technological requirements.

Addressing the Deterrents to MSME Development

The aforementioned challenges represent significant deterrents that the MSME sector in India must overcome. The list of obstacles faced by MSMEs continues to grow, underscoring the complexity of the environment in which these enterprises operate. It is, therefore, imperative that concerted efforts are made both by the government and MSMEs themselves at the grassroots level. Such collaborative and persistent action is essential to bring about a transformative change in the MSME landscape. Only through dedicated work from all stakeholders can the broader issues facing MSMEs be addressed, paving the way for their sustained growth and a substantial impact on the Indian economy.

SOLUTIONS FOR GROWTH OF MSME

It would be logical if the MSME are classified into three different categories instead of one category.

1. Micro enterprises
2. Small & Medium enterprises
3. Traders

The enterprises if classified as above would help a lot in preparing policies which are actually required by each of the respective category. This will help to translate the policy into uplifting the MSME of respective category only if the access to the policy is also simplified.

One of an important action that the MSME of India should take is to collaborate with each other. It is required that the MSME of similar industry must collaborate and join hands with each other which will make them a medium enterprise immediately uplifting them from micro or small enterprise. For e.g. If 10 or 20 micro enterprises come together and form one big industry then instantly the new industry may be able to change to a medium enterprise because with about 10 to 20 promoters with some kind of specialisation of their own may help to translate their professional and financial inputs into the new company to register growth with very less effort. This option can be done by the enterprises without any support from the govt. and this will also help to reduce their own competition which was earlier between them and the collective finance of this new company would become 10 to 20 times of their individual investment.

The challenge for all MSME is that they have to produce high quality products with high efficiency and very low wastage and this is only possible is the MSME uses latest and automated technology which are currently present in the market. The Govt. should promote and help the self-clustered MSME to be able to buy the latest technology with ease and should also promote purchases by the govt. from such clusters so that this initiative encourages other micro & small and even medium enterprises to begin collaboration with each other which is necessary for their growth and this will help to drastically improve contribution in the GDP increase in employments. The bi-product of this would be that this will help to increase the consumption to catapult in India. Here we must note that the GDP of China is about USD 20 trillion and the contribution of China SME is about 60% which translated to about USD 12 trillion solely coming from SME.

So, to increase the GDP of India it is evident that MSME must grow at a very fast pace and the micro & small enterprises should be converted majorly into medium enterprises.

The after effects would be that if the MSME converts to about 80% of medium enterprises this would have cumulative effect on India's economy and this would substantially increase the GDP & employment numbers in India and help to increase the per capita income of India which will help to increase the consumption in India since the people of India would then have adequate disposable income to increase their spending.

Restructuring MSME Classifications and Fostering Collaboration for Growth

It would be logical to classify MSMEs into three distinct categories rather than grouping them under a single umbrella. The proposed categories are as follows:

1. Micro enterprises
2. Small & Medium enterprises
3. Traders

Such a classification would significantly aid in developing targeted policies that address the unique needs of each group. Tailoring policy frameworks for each category, combined with simplifying policy access, would ensure more effective support and upliftment of MSMEs according to their distinct requirements.

An important step for the growth of MSMEs in India is fostering collaboration among enterprises, especially within the same industry segment. When MSMEs with similar business profiles join forces, they can collectively transition from micro or small enterprises to the medium enterprise category. For instance, if 10 to 20 micro enterprises come together to form a single, larger entity, the combined expertise and financial contributions of each promoter can drive rapid growth with relatively little effort. This collective approach does not require government intervention and also has the advantage of reducing internal

competition. Moreover, the pooled financial resources of the new entity would be substantially greater, multiplying the potential for investment and expansion.
A major challenge for all MSMEs remains the need to produce high-quality products with high efficiency and minimal wastage—an outcome that is only achievable through the adoption of the latest automated technologies. Therefore, it is essential for the government to support these self-formed MSME clusters by facilitating easy access to advanced technology. Additionally, encouraging government procurement from such clusters would further incentivise collaboration among micro, small, and medium enterprises. This approach would not only drive growth and increase MSME contributions to GDP and employment, but also stimulate consumption in the Indian economy. As a reference, China's SME sector contributes around 60% to its USD 20 trillion GDP, amounting to approximately USD 12 trillion.

In summary, accelerating the growth of MSMEs—particularly by enabling micro and small enterprises to evolve into medium-sized entities—is crucial for boosting India's GDP. If a significant proportion of MSMEs, say up to 80%, were to become medium enterprises, the resulting cumulative impact would be substantial: there would be marked growth in GDP and employment figures, a rise in per capita income, and a corresponding increase in domestic consumption as more Indians have access to greater disposable income.

CONCLUSION - The Imperative for MSME Growth in India

To achieve substantial progress in India, it is essential to focus on the growth of Micro, Small and Medium Enterprises (MSME). The path forward is clear: both MSMEs and the government must broaden their perspectives, moving away from traditional methods and embracing a comprehensive strategy. This holistic approach is vital for transforming the SME sector in India, ensuring that key indicators such as GDP, employment rates, consumer spending, per capita income, and other associated metrics advance simultaneously. Such collective progress will reflect the overall development of the nation, highlighting the critical role of MSME growth in driving India's economic prosperity.

HARJINDER SINGH
www.singhharjinder.in