

## Inclusive growth of small and medium scale enterprises in India

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### Abstract:

Small and Medium Enterprises (SMEs) are recognized as vital contributors to economic growth, job creation, and innovation worldwide. Ensuring their active participation in economic development is central to promoting inclusive growth. This research paper examines the multifaceted dimensions of inclusive growth for SMEs, investigating the strategies, challenges, and impacts associated with this imperative. In this paper the data relating to growth in the aspect of credit from the banks, employment creation, number of enterprises and other. Notable change observed that showing constant growth in Small and Medium Enterprises in the study period. In India there was a remarkable change came in the economy with the growth in small and medium enterprises.

**Keywords:** Growth, SMEs, Credit, employment, enterprises.

### Introduction:

Small and Medium-sized Enterprises (SME) are businesses characterized by their relatively small size when measured in terms of factors such as the number of employees, annual revenue, and total assets. The specific criteria defining SMEs can vary by country and industry, but they generally have fewer resources and a smaller scale of operations compared to larger corporations.

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of small and medium enterprises is as under:

Small Enterprises: Total investment threshold between Rs. 25 lakh and Rs. 5 crore.

Medium-sized Enterprises: Total investment threshold between Rs. 5 crore and Rs. 10 crore.

### Significance of Small and Medium Enterprises (SMEs):

Small and Medium Enterprises (SMEs) play a crucial role in the economic development of countries around the world. Their importance stems from various factors:

**Employment Generation:** SMEs are significant contributors to job creation. They often require a larger workforce relative to their size, which helps reduce unemployment rates and provides livelihoods for a substantial portion of the population.

**Economic Growth:** SMEs contribute to economic growth by fostering innovation, competition, and entrepreneurship. They introduce new products, services, and business models, which can lead to increased productivity and overall economic expansion.

**Diversification and Innovation:** SMEs diversify the economy by operating in various industries and sectors. This diversification helps reduce the risk associated with relying heavily on a single industry or sector for economic stability. SMEs are nimble and flexible, making them well-suited for innovation. They often serve as incubators for new ideas, technologies, and processes, which can later be adopted by larger corporations.

**Regional Development:** SMEs are often dispersed throughout a country, including in rural areas. Their presence helps balance regional development by providing economic opportunities outside major urban centers.

**Supplier Networks and Entrepreneurship:** SMEs are often part of larger supply chains, providing goods and services to larger enterprises. They play a crucial role in supporting the operations of larger companies, contributing to the overall efficiency of the economy. SMEs are a breeding ground for entrepreneurs. They offer individuals the opportunity to start and manage their businesses, fostering a culture of entrepreneurship and self-reliance.

**Local Communities and Social Mobility:** SMEs have strong ties to their local communities. They often engage in philanthropic activities, support local events, and contribute to the overall well-being of the communities in which they operate. SMEs offer opportunities for social mobility, allowing individuals to move up the economic ladder through entrepreneurship, skill development, and hard work.

**Export Potential and Adaptability:** SMEs can be vital players in international trade. They often produce niche products or services that can find markets abroad, contributing to a country's export earnings. SMEs can quickly adapt to changing market conditions and customer preferences. This flexibility enables them to respond to economic downturns, disruptions, and emerging trends more rapidly than larger corporations.

**Financial Inclusion:** SMEs often serve as a means of financial inclusion by providing access to financial services and credit to individuals and communities that might otherwise be excluded from the formal financial sector.

The small and medium enterprises (SMEs) are the backbone of many economies, contributing to employment, economic growth, innovation, and regional development. Their importance extends beyond just economic factors, as they play a vital role in shaping the social and cultural fabric of communities and nations. Supporting and nurturing SMEs is often a central focus of economic policy in many countries due to these manifold contributions.

### **Review of literature:**

According to European Commission (2003), Small and Medium Scale Enterprise (SME) is an enterprise that employs fewer than 250 persons and has annual turnover not exceeding Euro50 million, and/or an annual balance sheet total not exceeding Euro 43 million. There are many variations in the definition of SMEs. These variations could arise due to the fact that a single definition of SME might not be adequate for multiple countries witnessing diverse stages of economic development (Gibson & Van Der Vaart, 2008). Hence small scale business varies from one country to another; in the case of Nigeria, the definitions tend to vary from one institution to another.

On the other hand, inclusive growth may be considered to be a concept that involves equity, equality of opportunities, and protection in markets and employment mechanism. Inclusiveness is tagged as an essential tool for a successful growth strategy (Commission for Growth and Development, 2008). Most often, the concept of inclusive growth is often used as broad-based growth. Broad-based growth implies that growth should be sustained in the long-run and also large portion of the labour force in the growth process (Imb & Wacziarg, 2003). Interestingly, the definition above connotes the relevance of structural transformation for economic diversification and competition, including creative destruction of job and firms; and also, inclusiveness of the population refers to equality of opportunity in terms of access to markets, resources and unbiased regulatory environment for businesses and individuals.

The theory of change was first conceptualized in 1995. According to Weiss (1995), it is a theory of how and why initiative work. The theory of change is on-going process of reflection to explore change, how it happens and what it really means on a particular context, sector and or group of people. It is also known as the engine of change; it describes the set of assumptions that explains both min- steps that lead to long term goals and the link between these activities and outcomes of an interventions or programme (Anderson, 2004). This theory

is relevant to this study as it can be used to model how small medium enterprises' financing or interventions can be used to achieve inclusive growth.

### Research Methodology:

#### Objectives of the study:

- To study the concept of inclusive growth of small and medium scale enterprises
- To examine the inclusive growth of small and medium scale enterprises in India.

#### Data collection:

- Data collected from various government websites relating to the various aspect in the growth of SMEs in India from 2000 to 2010

#### Data Analysis:

The SME growth, including the factors influencing their expansion, the challenges they face, and the significant contributions they make to economic development. The following are the major factors that will considered in the growth of small, medium enterprises (SMEs).

**Table -1**

#### Growth Rates of GDP, Total Industry, Manufacturing and SMEs (2000-10)

(In

percentage)

Year	GDP	Total Industry	Manufacturing	SMEs Sector
2000-01	4.4	5	5.3	8.2
2001-02	5.8	2.7	2.9	6.1
2002-03	3.8	5.7	6	8.7
2003-04	8.5	7	7.4	9.6
2004-05	7.5	8.4	9.2	10.9
2005-06	9.5	8	8.9	12.3
2006-07	9.6	12.9	15	12.6
2007-08	9.3	15.5	18.4	13
2008-09	6.7	2.5	2.5	13.1
2009-10	8.6	5.3	4.8	13.7

**Sources:** Compiled Data

The above table 1 representing that the growth of Small and Medium Enterprises (SMEs) in GDP, Total Industry, Manufacturing and SMEs in the country. The SME sector has pointed out the dramatic change and regular increase from the 6.1 percentage to 13.7 percentage i.e from 2001-02 to 2009-10. In the year of 2001-02 SMEs Sector has 6.1 percentage and in 2000-01 it was 8.7 percentage.

**Table -2**

**Exports from small, medium enterprises (SMEs) - 2000 -2010**

<b>Year</b>	<b>Total Exports (USD in Billions)</b>	<b>Exports of SME Products (USD in Billions)</b>	<b>Growth of SME Exports</b>
2000-01	44.56	15.28	***
2001-02	43.83	14.94	-0.34
2002-03	52.72	17.77	2.83
2003-04	63.84	21.25	3.48
2004-05	83.54	27.69	6.44
2005-06	103.09	33.94	6.25
2006-07	126.41	40.36	6.42
2007-08	163.13	50.25	9.89
2008-09	185.3	60.43	10.18
2009-10	178.75	72.29	11.86

**Sources:** Compiled Data

The above table 2 representing that the growth of Small and Medium Enterprises (SMEs) in exports of the country. The exports from the Small and Medium Enterprises are in increasing mode in the study from 2000-01 to 2009-10. In the year 2000-01 the total exports are \$ 44.56 billion and in the year 2009-10 it was 178.75 with increase of 301.144% , at the period the SMEs exports are increased with 373.10%.

Table -3

**Performance of SMEs in Fixed investment, Production and Employment**

Year	Number of SMEs (regd. & unregd.) (Millions)	Fixed Investment (Rs. Billion)	Production (Rs. Billion)	Employment (Millions)
2005-06	35.28	8125	12429	68.48
2006-07	36.18	8685	13514	80.52
2007-08	37.74	9174	14352	84.22
2008-09	39.37	9714	15242	88.11
2009-10	41.08	10293	16194	92.22

**Sources:** Compiled Data

The above table 3 representing that the Performance of SMEs in Fixed investment, Production and Employment in the country. In the study period from 2005-06 to 2009-10 the number of SMEs are increased with 16.43 percentage, the fixed investment has increased to 26.68 percentage, Production has increased from Rs.12429 billions to Rs. 16194 and The employment has also increased from 68.48 million to 92.22 million with the percentage of 34.67.

**Conclusion:**

Small and Medium Enterprises are the lifeblood of economies worldwide. Their growth and success are not only essential for economic prosperity but also for fostering innovation, inclusivity, and social development. From the study period from 2000 to 2010 there was a notable change observed that showing constant growth in Small and Medium Enterprises (SMEs). Governments, financial institutions, and the private sector must continue to support and empower SMEs to ensure they reach their full potential, contributing to a more vibrant and dynamic global economy.



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