

ROLE OF MSMEs IN INDIAN ECONOMY

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Abstract

Micro Small and Medium Enterprises (MSMEs) have long been considered the foundation of the Indian economy's growth. Known for their low capital and technology requirements, this sector provides the second-highest employment opportunities in India especially in backward and rural areas following agriculture. Furthermore, MSMEs play a crucial role in fostering development in underdeveloped and rural regions, reducing regional disparities, and ensuring equitable distribution of wealth and income nationwide. Despite its significance, the MSME sector in India has encountered numerous challenges. With the advent of advanced technology and the presence of both local enterprises and multinational corporations (MNCs) as competitors, this industry has been impacted by liberalization and globalization in India since 1991. This study reveals the role of MSMEs in India's economy and also focuses on major issues and potential of MSMEs.

Key Words: MSMEs, Employment, Industrialisation, Globalisation Growth, Technology, Economy.

Introduction:

Micro, Small, And Medium-sized enterprises (MSMEs) sector of India's economy has witnessed tremendous growth over the past seventy years. It's India's second most productive industry, after agriculture, in terms of creating jobs at relatively low capital costs and promoting entrepreneurship, both of which play an important role in the country's economic and social development. MSMEs supplement large corporations as support units and play a vital role in India's inclusive industrial growth. To meet the needs of domestic as well as global markets, the MSME sector is expanding into new economic segments, offering a broad range of products and services, and generating a diverse array of products and services.

The Ministry of Micro, Small, and Medium Enterprises (MSME) is working in collaboration with relevant Departments, State Governments, and other Stakeholders to enhance the MSME sector,

which encompasses Village, Khadi, and Coir Industries. This objective will be accomplished through the support of existing businesses, the adoption of advanced technologies, and the promotion of new business ventures. Various statutory and non-statutory departments operate under the guidance of the Ministry of MSMEs, such as the National Institute for Micro, Small, and Medium Enterprises, National Small Industries Corporation, Khadi and Village Industries Commission, Mahatma Gandhi Institute for Rural Industrialization (MGIRI) and the Coir Board.

The Micro Small and Medium Enterprises Development Act was introduced in 2006 to address several issues about SMEs, such as investment restrictions and industry coverage. Its primary goal is to support these businesses' growth and improve their competitive standing. The establishment of a National Council for Micro, Small, and Medium Enterprises, led by the Minister of MSMEs, is one of the MSME Act's notable features. This council's duties include studying the variables that affect the expansion and development of SMEs, assessing the policies and programs of the state, and making recommendations for enhancing competitiveness, development, and promotion. The law creates a framework that encompasses both manufacturing and service entities for identifying the notion of an enterprise. The paper depicts the role of MSMEs in India's economy and also focuses on the major issues and potential of MSMEs.

Objectives and Research Methodology:

- To understand how MSMEs generate more jobs.
- To analyze the growth and expansion of MSMEs in India.
- To identify the challenges encountered by MSMEs in India.

The present paper is mostly based on secondary data. The sources of data are various outlets such as journals, annual reports of MSME, and the other published reports of respective departments. The data is organized in a table form and analysis is conducted with a focus on the paper objectives.

Concept of Micro, Small, and Medium Enterprises:

Micro, Small & Medium Enterprises Development Act of 2006 outlines the categorization of Micro, Small, and Medium Enterprises (MSMEs) as per the following criteria:

- Micro Enterprise: The investment in plant and machinery or equipment should not exceed one crore rupees, and the turnover should not exceed five crore rupees.
- Small Enterprise: The investment in plant and machinery or equipment should not exceed ten crore rupees, and the turnover should not exceed fifty crore rupees.

- **Medium Enterprise:** The investment in plant and machinery or equipment should not exceed fifty crore rupees, and the turnover should not exceed two hundred and fifty crore rupees.

the present MSMEs classification was implemented in 2020. Previously, the classification criteria were based on the investment in plant and machinery/equipment, with distinctions between production and service units and relatively low financial thresholds. However, due to significant changes in the economy, the MSME classification criteria were revised to align with the self-reliant package announced by the prime minister of India.

As a result, a new classification system was implemented in June 2020, which aimed to simplify matters for current and potential entrepreneurs by combining the classification for both production and service units. This revision eliminated the distinction between the manufacturing and service sectors. In addition, a new turnover criterion was introduced, which now considers investment in machinery and equipment as well as turnover. These new criteria have been designed to be more inclusive and are expected to provide numerous benefits for the growth of small and medium-sized enterprises (SMEs) in the Indian economy.

Furthermore, it was decided that the export turnover of any micro, small, or medium MSME unit would not be taken into account when determining the turnover limitation. This strategic decision is aimed at facilitating businesses, attracting investments, and creating more job opportunities within the SME sector. The Ministry of MSME and its affiliated organizations are dedicated to assisting nations in promoting entrepreneurship, generating employment and livelihood opportunities, and enhancing the competitiveness of SMEs in the ever-changing economic landscape. The revised classification criteria for SMEs is expected to provide significant support, particularly for exporters. The primary responsibility for fostering and promoting SMEs lies with state governments, although the Government of India also supports these efforts through various initiatives.

Skill Training Eco-system of Ministry of MSME:

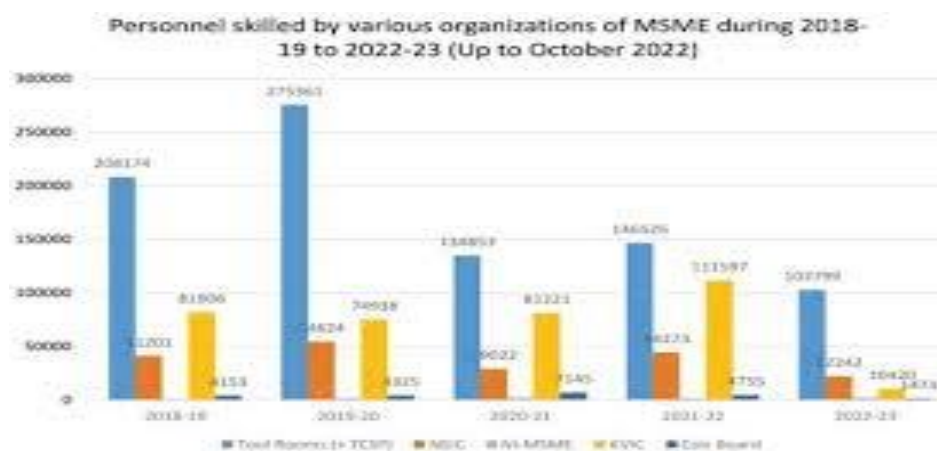
The Ministry of Micro Small and Medium Enterprises has established a comprehensive skill training ecosystem to drive the growth of the industry in the Indian economy. This ecosystem primarily focuses on supporting Micro, Small, and Medium Enterprises (MSMEs) by addressing the high demand for skilled manpower in various emerging and traditional sectors. The Ministry has organized numerous skill development programs and courses to enhance the capabilities of both existing as well as potential entrepreneurs. These training initiatives are designed to meet the industry's needs and cater to the evolving dynamics and challenges of the MSME ecosystem in India. The implementation of these programs is carried out through a network of agencies under the

Ministry, including Khadi Industries and Village Industries Commission, National Small Industries Corporation Ltd, Coir Board, National MSME Institutes, and MSMEs Technology Centres (TCs). The TCs offer a wide range of degree programs, certifications, diplomas, and postgraduate degree programs to individuals at different levels, from school dropouts to those pursuing M.Tech. courses. Specialized training is also provided in traditional sectors such as the Khadi industries and village industries, as well as the coconut industry in India.

Progress of Skill Development Programmes:

The Ministry of MSMEs oversees skill development programs that cater to both young individuals seeking suitable employment and entrepreneurship opportunities, as well as existing entrepreneurs and the workforce looking to enhance their professional skills. These programs are carried out through various schemes like National SC/ST Centre, Mahila Coir Yojna Capacity building, MSME-TCs, ATI, and Coir Vikas Yojna - Skill Upgrading. Additionally, customized industry-specific training and mandatory courses are also provided by the Ministry.

The chart below illustrates the progress of skill development programs conducted by the Ministry of MSME from 2016-2017 to 2022-2023



Source: Ministry of MSMEs Annual Report 2022-23

Government e-Market Place:

The Government GeM portal is being actively promoted by the MSME Ministry to encourage the participation of MSMEs. A special button has been added to the Udyam application form for MSMEs to indicate their interest in joining GeM, according to the GeM portal.

MSEs that have completed their registration by December 31, 2022, have their order values recorded as follows:

| Number of MSE sellers & Service Providers | Orders value (MSE %) |
|---|----------------------|
| 8,34,696 | 55.10 |

Source: Ministry of MSMEs Annual Report 2022-23

The 41st India International Trade Fair (IITF) at Pragati Maidan on November 15, 2022, featured the MSME Pavilion organized by the Indian Trade Promotion Organization (ITPO). The Ministry of MSME established the Pavilion with the theme "Voice for Local, Local to Global" and provided 204 stalls to Micro and Small Enterprises (MSEs) from 24 States/UTs. The showcased products represented 26 diverse fields, such as textiles, food, metallurgy, fragrance, toys, chemicals, leather, footwear, plastic, rubber, stone, gems, and jewelry etc. This year, the MSME Pavilion saw a record high of 73% women-owned enterprises, along with 7% stalls allocated to Divyang entrepreneurs, 12% to SC entrepreneurs (male), and 6% to aspiring community representatives.

UDYAMI BHARAT:

- The Hon'ble Prime Minister of India, Shri Narendra Modi, inaugurated significant initiatives for the MSME sector under the 'Udyami Bharat' program.
- During his address at the Udyami Bharat Programme in New Delhi, the Hon'ble Prime Minister emphasized the pivotal role played by the Micro, Small, and Medium Enterprises (MSME) sector, which constitutes nearly one-third of India's economy. He also announced the allocation of a self-reliant fund amounting to 50 thousand crore rupees for the sector. Additionally, he encouraged MSMEs to register on the GeM portal for supplying goods to the government. He highlighted its crucial contribution to India's growth journey and reiterated the government's commitment to providing maximum support to Micro, Small, and Medium Enterprises.
- The Prime Minister also presented 'The National MSME Awards, to acknowledge the contributions of MSMEs, States/UTs, Aspirational Districts, and Banks in the growth and development of the MSME sector in India.
- Furthermore, He launched several initiatives, including the 'Raising and Accelerating MSME Performance' scheme, 'Capacity Building of First-Time MSME Exporters' (CBFTE) scheme, and 'Prime Minister's Employment Generation Programme' (PMEGP). Moreover, he digitally facilitated assistance to beneficiaries of PMEGP. The Prime Minister also announced the winners of the 'MSME Idea Hackathon-22' and presented Digital Equity Certificates to MSME beneficiaries of the Self-Reliant India Fund.

Growth Performance of MSMEs

The Indian Economy greatly benefits from the contribution of Micro, Small, and Medium Enterprises (MSMEs). Moreover, they have played a crucial role in industrializing rural and underdeveloped regions, thereby reducing regional disparities and promoting a more balanced distribution of national income and wealth. These enterprises have been instrumental in driving business growth by implementing innovative practices. In particular, small and medium-sized enterprises have made their mark in diverse economic sectors, offering a wide range of products and services to meet the demands of both domestic and international markets. Notably, Indian SMEs have played a significant role in generating employment opportunities with relatively lower capital investments compared to large-scale industries.

Registered MSMEs in India:

The presence of MSMEs in India is of great significance as they provide abundant employment opportunities with minimal capital investment compared to larger industries. Additionally, they contribute to the development of rural and underdeveloped regions, thereby addressing regional disparities and promoting a more equitable distribution of the country's income and wealth. As per the National Sample Survey (NSS) 73rd round conducted by the National Sample Survey Office, Ministry of Statistics & Programme Implementation during the 2015-16 period, India had a staggering 633.88 lakh unincorporated non-agriculture MSMEs engaged in various economic activities. It is important to note that this count omits MSMEs registered under Sections 2m(i) and 2m(ii) of the Factories Act, 1948, Companies Act, 1956, and construction activities falling under Section F of the National Industrial Classification (NIC) 2008. These activities encompassed 196.65 lakh in Manufacturing, 0.03 lakh in Non-captive Electricity Generation and Transmission, 230.35 lakh in Trade, and 206.85 lakh in Other Services.

Activity Wise Registered MSMEs

| Activity Category) | Number of Enterprises (in lakhs) | | | Share (%) |
|-----------------------|----------------------------------|--------|--------|-----------|
| | Rural | Urban | Total | |
| Manufacturing | 115.14 | 82.50 | 197.65 | 31 |
| Electricity | 0.03 | 0.01 | 0.04 | 0 |
| Trade | 108.73 | 121.65 | 230.38 | 36 |
| Other Services | 102.00 | 104.73 | 206.73 | 33 |

| | | | | |
|------------|--------|--------|--------|----|
| All | 324.88 | 309.00 | 633.88 | 10 |
|------------|--------|--------|--------|----|

Source: Ministry of MSMEs Annual Report 2022-23

Category-wise Distribution Enterprise

The micro sector, which consists of approximately 630.52 lakh enterprises, makes up more than 99% of the total estimated number of MSMEs. Among the total estimated 633.88 MSMEs, 324.88 lakh (51.25%) are located in rural areas, while 309 lakh (48.75%) are situated in urban areas. On the other hand, the small sector, comprising 3.31 lakh enterprises, represents 0.52%, and the medium sector, with 0.05 lakh enterprises, contributes 0.01% to the overall estimated MSMEs.

Distribution of Enterprise in Rural and Urban Areas

| Sector | Rural | Urban | All |
|------------------|--------|--------|--------|
| Micro | 324.09 | 306.43 | 630.52 |
| Small | 0.78 | 2.53 | 3.31 |
| Medium | 0.01 | 0.04 | 0.05 |
| Total | 324.88 | 309.00 | 633.88 |
| Share (%) | 51 | 49 | 100 |

Source: Ministry of MSMEs Annual Report 2022-23

Ownership by Gender (Male/Female)

Among the 633.88 MSMEs, 608.41 lakh (95.98%) were proprietary concerns. This trend was consistent in both urban and rural areas, although male-owned enterprises were more prevalent in urban areas (81.58%) compared to rural areas (77.76%). The ownership of proprietary MSMEs showed a clear male dominance, with males owning 79.63% of enterprises, while females owned 20.37%.

Distribution Percentage of Enterprises in Urban and Rural Areas by Ownership Category

| Sector | Male | Female | All |
|--------------|-------|--------|-----|
| Rural | 76.96 | 21.64 | 100 |
| Urban | 80.88 | 17.72 | 100 |

| | | | |
|------------|-------|-------|-----|
| All | 79.13 | 20.37 | 100 |
|------------|-------|-------|-----|

Source: Ministry of MSMEs Annual Report 2022-23

Gender Entrepreneurs

| Category | Micro | Small | Medium | All |
|-----------------|--------------|--------------|---------------|------------|
| Male | 78.56 | 93.64 | 96.83 | 78.93 |
| Female | 21.05 | 5.24 | 2.67 | 20.37 |
| All | 100 | 100 | 100 | 100 |

Source: Ministry of MSMEs Annual Report 2022-23

Category-wise Ownership of Enterprises

| Sector | SC | ST | OBC | Others | Not known | All |
|---------------|-----------|-----------|------------|---------------|------------------|------------|
| Rural | 14.77 | 6.74 | 50.89 | 25.62 | 0.72 | 100.00 |
| Urban | 9.65 | 1.53 | 47.80 | 40.46 | 0.86 | 100.00 |
| All | 11.75 | 3.90 | 50.12 | 40.15 | 0.79 | 100.00 |

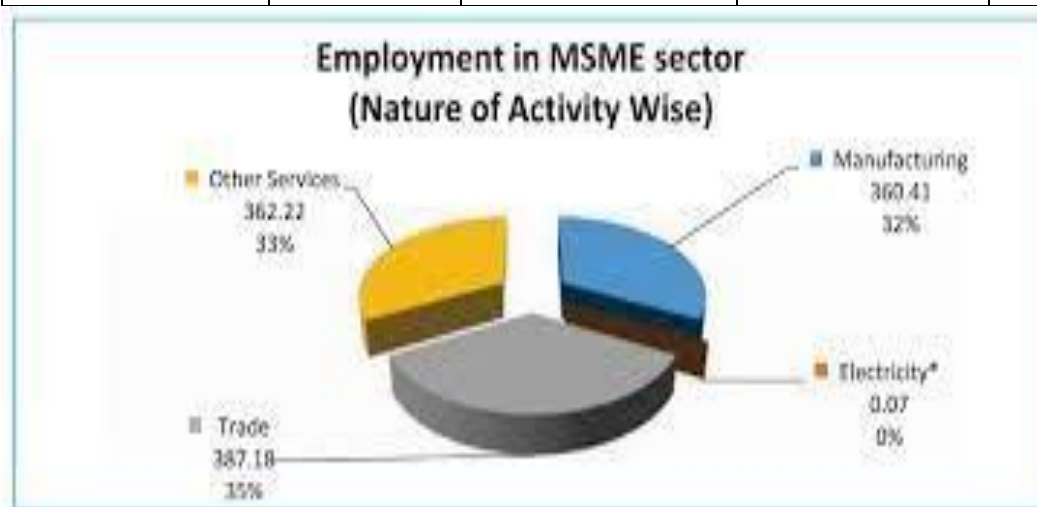
Source: Ministry of MSMEs Annual Report 2022-23

Employment Generation by MSMEs:

The 2015-16 National Sample Survey (NSS) 73rd round revealed that the MSME sector played a significant role in job creation, contributing to the generation of 11.10 crore jobs. These employment opportunities were spread across various sectors, with 360.41 lakh jobs in Manufacturing, 0.07 lakh jobs in Non-captive Electricity Generation and Transmission, 387.18 lakh jobs in Trade, and 362.82 lakh jobs in Other Services. It is worth noting that these job opportunities were created in both rural and urban areas across the country. The distribution of MSME activities can be observed in the table given below.

Employment provided by MSMEs

| Broad Activity Category | Employment (in lakh) | | | Share (%) |
|-------------------------|----------------------|--------|---------|-----------|
| | Rural | Urban | Total | |
| Manufacturing | 185.86 | 174.16 | 360.02 | 32.37 |
| Electricity | 0.06 | 0.02 | 0.08 | 0.007 |
| Trade | 161.14 | 227.24 | 388.38 | 34.93 |
| Other Services | 151.23 | 212.31 | 363.54 | 33.35 |
| All | 498.29 | 613.73 | 1112.02 | 100 |



*Non-captive electricity generation and transmission

Source: Ministry of MSMEs Annual Report 2022-23

Analysis:

Micro, Small and Medium Enterprises Gross Value Added (GVA) contribution to India's Gross Domestic Product (GDP) has displayed variations over the past three years. In the fiscal year 2019-20, it reveals 30.5%, experiencing a slight decline to 27.2% in 2020-21, and then rebounding to 29.2% in 2021-22. Similarly, the proportion of MSMEs manufacturing output in the total Indian manufacturing output remained relatively stable, with percentages of 36.6%, 36.9%, and 36.2% in the fiscal years 2019-20, 2020-21, and 2021-22, respectively. The export of MSME-designated products followed a similar trend. The annual report revealed a decrease in the share of MSME products in India's overall exports over the last three years. In the fiscal year 2020-21, MSME products accounted for 49.4% of India's exports, dropping to 45.0% in 2021-22, and further declining to 43.6% in 2022-23. Moreover, the MSME sector has made a significant impact on employment in

India. The Udyam Registration Portal reported a substantial 12,36,15,681 individuals employed in MSMEs registered between 2020 to 2023.

Challenges Faced by MSMEs:

MSMEs face various types of challenges such as accessing essential raw materials, skilled labour, and other necessary inputs, hindering their ability to manufacture products competitively. Limited access to bank credit, insufficient technological advancement, inadequate training programs, and lack of diverse marketing channels also contribute to the struggles faced by MSMEs in India. The inadequate infrastructure of these enterprises leads to low production capacity and increased production costs. Global competition from multinational corporations offering quality products at competitive prices further adds to the challenges.

1. Small and Medium Enterprises (MSMEs) face challenges in accessing essential raw materials, skilled labor, and other necessary inputs, hindering their ability to manufacture products competitively.
2. Despite the growth of MSMEs, inadequate infrastructure leads to low production capacity and increased production costs for these businesses.
3. MSMEs struggle with intense competition from multinational corporations that offer quality products at competitive prices in the globalized market.
4. MSMEs encounter difficulties in obtaining sufficient bank credit, with high-interest rates ranging between 7.75% and 15.25% for loans.
5. Owners of MSMEs lack awareness of modern manufacturing techniques and advanced technologies, hindering technological advancement.
6. Lack of knowledge of innovative production methods and insufficient government-led capacity development programs contribute to the skills gap among MSME owners.
7. MSMEs often fail to utilize diverse marketing channels effectively, resulting in underperforming sales due to ineffective advertising strategies.

Recommendations:

- It is crucial to boost employment opportunities for economic development by improving the performance of small and medium-sized enterprises (SMEs) in urban areas.

- Proper training initiatives can play a vital role in promoting the participation of women in the workforce and entrepreneurship, not only in urban but also in rural areas.
- The Indian Government should take necessary steps to support the expansion of Micro and small-sized enterprises.
- It is imperative to provide flexible bank credit and interest rates that cater to the specific needs of an entrepreneur.
- Essential training for technology and innovations should be provided to entrepreneur in both urban and rural areas to ensure their growth and success.

Conclusion:

Micro, Small, and Medium enterprises sector is experiencing rapid growth with increased job opportunities. Manufacturing and Service segments of MSMEs play a significant role in contributing to the country's GDP. The government of India is actively working towards promoting the growth of MSMEs across the nation. To ensure the effective implementation of government policies and provide guidance to entrepreneurs, partnerships, and agreements are being formed with NGOs, government agencies, and universities.

Despite the above said efforts, MSMEs face various types of challenges at present. One of the key challenges is the lack of upgrading technological awareness, which can be addressed through efficient training and skill development programs. low-cost credit access is also crucial for MSMEs, especially, due to decreasing involvement of foreign banks in approving loans for the industry. Currently, it is also noted that less than 50% of the fixed assets utilized by MSMEs are funded through bank credits. Owners rely on personal funds for working capital. Therefore, it is essential to establish an expert panel to assess the needs and conditions of MSMEs. Additionally, measures like the online portal Champions non-tax benefits for upward changes in MSME status, and the Raising and Accelerating MSME Performance program have been introduced to foster the growth of the sector. The Indian government has recently taken significant steps to further support MSMEs such as the Rs. 5 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS), and Rs. 50,000 crore equity infusion through the MSME Self-Reliant India Fund. And the inclusion of Retail and Wholesale trades as MSMEs demonstrates this commitment. India's MSME sector holds a promising future and will continue the country's economic development in the future.

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