

## MSMES' CONTRIBUTION TO INDIA'S ECONOMIC DEVELOPMENT

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### ABSTRACT

The MSMEs are thought to be the main engine behind the social and economic development of developing countries. A country like India, which has a labor surplus and severe economic and social inequalities, needs this industry since it is labor-intensive. The MSMEs sector promotes entrepreneurship, provides a plethora of employment opportunities, decentralizes industrial activity, and makes it easier to use locally accessible resources at extremely low capital costs. But the bulk of India's economy is concentrated in its rural areas, where the agriculture sector is king. The function of the agricultural sector has grown even while its share of GDP, employment, and the quantity of land owned by marginal and small farmers has declined. The low cost of establishing new industries in both rural and urban locations is facilitated by this industry. An important part of the labor force has been absorbed by the nation's MSME sector. Currently, this industry employs 612.09 lakh people in urban areas (309 lakh units) and 497.73 lakh people in rural areas (324.88 lakh units) across the country. Furthermore, this sector encourages an entrepreneurial mindset among the nation's underprivileged social groups. This study examines the ways in which the MSME sector in India fosters employment and entrepreneurial growth in order to advance social and economic development.

**Keywords:** MSMEs, Economic and Social Development, Employment and Entrepreneurship, cost establishment.

### 1. INTRODUCTION

Micro, Small, and Medium-Sized Enterprises (MSMEs) possess the capacity to serve as important sources of employment and contribute to the objective of growing the Indian economy to US\$ 5 trillion within the next five years. In this rapidly expanding industry, the majority of businesses are now trying to develop solutions using novel and cutting-edge technologies. The MSMEs sector is the backbone of India's exports, providing goods and services to large enterprises. As the full name MSME implies, it encompasses three different business sizes: micro, small, and medium. Over nine core MSMEs operate in India, and they contribute almost 40% of the country's exports. MSMEs are being forced to digital by the pandemic. Using cutting-edge FinTech technologies could be essential to helping MSMEs advance. MSMEs have their own set of challenges to their growth journey. One of these is the timely availability of required funds. 80% of MSMEs lack access to formal lending channels. The need for credit is more during seasonal spikes, like festive seasons. Small companies in retail sectors need to be prepared to take growth advantages during important festive seasons as consumers look for high-value purchases.

As the above MSME definition shows, MSMEs are primarily involved in producing, manufacturing, processing, or preserving goods. For more clarity on 'What is MSME?', consider the following essential elements of MSMEs -

MSMEs aid workers' and artisans' welfare by increasing employment opportunities and providing loans and other services

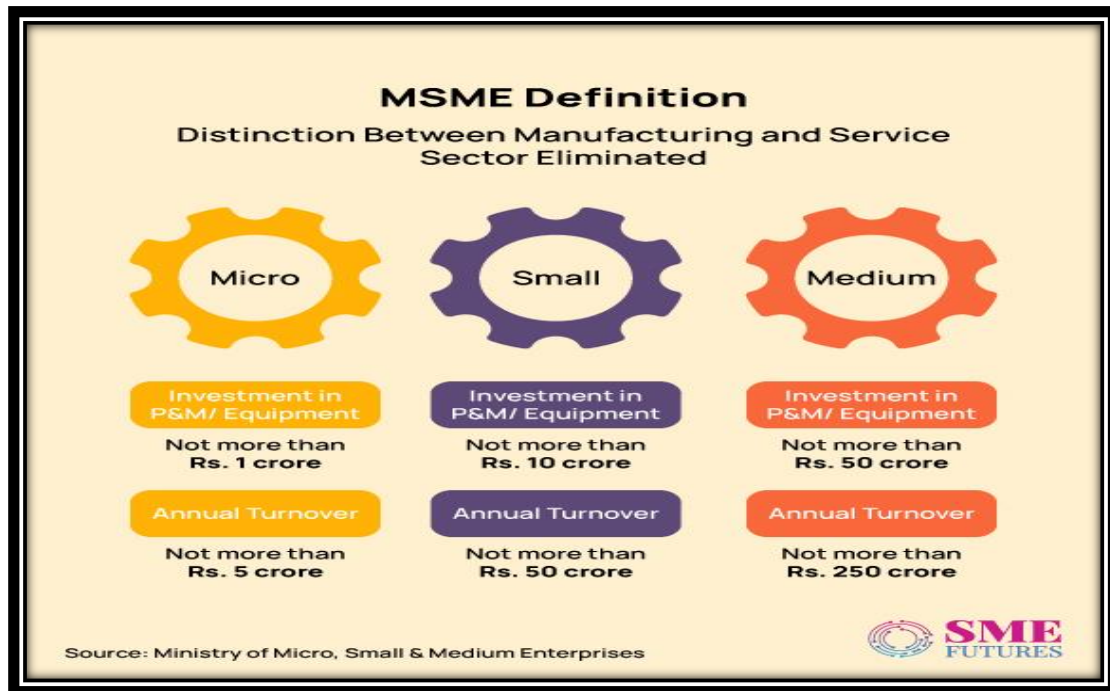
- These enterprises encourage entrepreneurship and project technical training centers
- They support infrastructure development, technological development, and the sector's modernization.
- They assist the domestic and export markets
- They provide modern testing facilities
- They provide quality certification service

Classification based on the Composite MSME Criteria and Limits or MSME definition 2022 - Investment in Plant and Machinery/Equipment and Annual Turnover - are as follows:

#### Role of MSMEs in the Indian Economy

The MSME Industry in India is contributing to socio-economic development impressively. Therefore, the Indian government is encouraging MSMEs promotion. Within 25 months, over one crore MSMEs have registered on the Udyam portal, employing 7.6 crore people, including 1.7 crore women MSMEs have gained significant importance with their 30% contribution to the country's Growth of Domestic Product (GDP), exports and employment generation. This sector also plays a crucial role in entrepreneurship development, especially in semi-urban and rural areas in the country. MSMEs are rapidly adopting digital payment systems showing prospects for further growth in the industry. According to IBEF data, as of July 14, 2022, the 4.73 million sellers and service providers registered at the Government e-Marketplace (GeM) portal have fulfilled over 10.55 million orders. Reputed FinTech companies like

Pine Labs can help MSMEs accelerate commerce. They provide advanced FinTech solutions, like 360-degree Payments Solutions. MSMEs can access a quick and secure online payment gateway to upgrade their customer experience digitally. The government keeps encouraging the sector with its various recent developments and policies. As of July 8, 2022, the government has disbursed Rs. 73,199.89 crores for 10.03 million loans under the Pradhan Mantri MUDRA Yojana (PMMY) scheme. The government aims to invest more in back-end services to improve the sector's performance.



## 2. OBJECTIVES

1. To be aware of the opportunities and policy support available to MSMEs in India.
2. To assess MSMEs' expansion and impact in India.
3. To offer some solutions for the different problems that MSMEs in India.

## 3. METHODOLOGY

Data for this research work was gathered from secondary sources, which included electronic media from pertinent literature, daily newspapers, Wikipedia journals, and online domains.

### Literature Review

**Kalchetty Eresi (1989)** discussed the various sources of finance (both long –term and short term) available to small scale units. The study also examined the problems faced by the units while obtaining finance from institutional and non-institutional sources. The author concluded that retention of earnings constituted one of the most important sources of internal finance in the corporate sector .Small units had to face a lot of problems in raising term finance from financial institutions. However, the impact of such borrowing on the capital structure of the units was considerable formulating its business plan.

**K.C.Reddy (1990)** analyzed the impact of bank finance on small industry in his study 'Financing of Small Scale Industries '. The study had two broad divisions such as the Government Policy for the development of small industry affected in the institutional Visakhapatnam district. The author concluded that the growth of small industry has been very significant both in terms of the number of units and the growth of investment and output. However, there was undue concentration of industries in the district. S.B.I. being the lead bank has been the most important source of institutional finance for the small industry.

**Ramakrishna (2001)** in his study entitled, 'Finance for Small Scale Industries in India' has described the nature of problems of finance with regard to SSIs in India and the role played by the Government, state finance corporations and banks in financing the small scale units. His study emphasized the methods of financing practiced by several countries in North and South America, Asia and Europe. Cassar and Holmes (2003) 36 examined the determinants of capital structure of Australian SMESs using a series of firm characteristics. Their results suggested that asset structure, profitability and growth are important determinants of capital structure and financing of SMES.

**Sarkar (2005)** in his scholarly article 'Alternative Modes of Finance for SME sector in India' Some Issues and Suggestions' examined the inadequacies of finance to the SSI/SME sector from traditional sources and addressed the feasibility of alternative sources. Generally, the quantum of finance so released is neither adequate nor timely, nor commensurate with the performance of the sector and its contribution to the GDP growth. There should no longer be any doubt that SSIs should be treated as a separate sector. Indeed, the compatible expression in consonance with the global trend in SMEs.

**Rikta (2006)** in a policy note on institutional lending and financing policy for SMEs in Bangladesh, examined the effectiveness of financial, fiscal, and related policies for financing the SME sector and compared the availability of financing facilities in Bangladesh with several other countries. The study suggested that the financial institutions need to have the financial capacity to accept the lending risks along with access to appropriate funding which fulfill the clients' requirements. The financing approach of the commercial and development.

#### **The advantages of Udyam registration for companies**

- Udyam Registration entitles your business to the following benefits.
- It is a permanent identification number without any requirement for renewal.
- You can complete the process even using your smartphone.
- It is a free of cost facility.
- Get easy loans with no collateral and benefit from government subsidies.
- There is a 1% exemption on the interest rate on Bank Overdraft.
- Get preference in procuring Government tender.
- Avail of various tax rebates and concessions in electricity bills.
- Special 50% discount on fees to file the trademark and patent filing.

Avoid the delay in payment from buyers and get fast resolution of dispute is largely traditional that does not suit the special characteristics of SMEs.

#### **Important Elements Encouraging MSMEs' Development in India**

**MSMEs:** The Dynamic Drivers of the Indian Economy MSMEs, a significant segment of India's economic fabric, contribute to industrial employment, value addition, and regional dispersal of industries. With their contributions making up over 8% of the country's Gross Domestic Product (GDP), 45% of the manufacturing output, and 40% of India's exports, MSMEs have proven themselves as catalysts in our thriving economic system.

In the employment sphere, MSMEs have provided jobs to over 111 million people, underscoring their importance as vital employment generators in the Indian economy. Their inherent flexibility, adaptability, and widespread geographic presence, including in rural areas, make MSMEs indispensable for balanced and inclusive economic development.

**Government Support and Initiatives for MSMEs** Acknowledging the vital role of MSMEs, the Indian government has embarked on various initiatives over the years to bolster their growth. These measures range from financial assistance schemes to training and skill development programs and regulatory easing. The recent launch of the MSME Champions Portal, designed to address grievances or queries, exemplifies these measures. Such initiatives have guided the MSME sector towards substantial expansion in recent years.

**Driving Economic Growth and Employment Generation** MSMEs in India serve as crucibles of innovation. Their readiness to adopt new technologies and innovative business practices play a significant role in propelling India's economic growth and bolstering its position on the global stage. Beyond contributing to output and exports, MSMEs create substantial employment across the nation. This role is critical as MSMEs generate diverse opportunities across urban and rural India, contributing to regional economic balance and socio-economic empowerment.

**Boosting Rural and Regional Development** MSMEs are instrumental in driving grassroots development. By empowering rural communities, creating employment opportunities, and supporting local economies, they promote inclusive growth.

These enterprises have the potential to bridge the urban-rural divide, providing previously underserved areas with access to financial services, skill development, and market linkages.

MSMEs contribute to India's economic resilience by diversifying risks and reducing dependency on a few large industries or companies.

Their presence in various sectors and geographic locations helps maintain stability, especially during challenging economic times. MSMEs contribute to balanced regional development and enable a more inclusive and sustainable economic growth model.

**Catalysts for Innovation and Entrepreneurship** India's MSME sector serves as a breeding ground for innovation and entrepreneurship. These enterprises often incubate new ideas, allowing aspiring entrepreneurs to bring their visions to life. By fostering innovation and nurturing talent, MSMEs contribute to technological advancements, product development, and overall competitiveness in the Indian economy.

## Contribution of MSMEs



(Source: <https://taxguru.in/finance/budget-2023-great-boost-msmes.html>)

### Challenges for MSMEs development in India

**Financial difficulties:** It has always been difficult for MSMEs and smaller businesses to get funding. Because traditional banks are rarely able to supply these enterprises with timely finance, they are often left to rely on their own resources. Even larger companies struggle to secure more affordable financing, which restricts their capacity to grow.

**Regulatory obstacles:** MSMEs must overcome a number of regulatory obstacles, including labor law modifications and tax compliance. Labor reforms have been implemented in an effort to increase MSMEs' competitiveness, however these efforts have not been successful in addressing their problems. For them, tax registration and regulatory compliance frequently become difficult tasks that result in operational limitations and, occasionally, closures.

**Infrastructure:** Infrastructure plays a critical role in the success of MSMEs. In India, where industries such as e-commerce ventures and BPOs thrive, a robust infrastructure is essential. However, inadequate infrastructure can impede the growth of MSMEs, hindering their ability to scale their operations and reach broader markets.

**Low productivity:** MSMEs usually have low productivity, especially when compared to larger companies. Although they can manufacture vast numbers of goods at low costs and with outstanding cost-efficiency, their overall production may be limited by the scale and margin restrictions of their operations. When competing, this becomes a disadvantage in various industries.

**Lack of innovation:** The lack of innovation among MSMEs in India is a major problem. Many firms are unable to implement the most contemporary tools and technologies that are usual in areas like contact centers and e-commerce because of outdated technology and a lack of entrepreneurs. This lack of innovation limits the sector's potential growth and increases the likelihood of low productivity levels. MSMEs are essential to India's business environment because they encourage entrepreneurship, hasten economic growth, and generate job opportunities. These businesses also have some particular difficulties, such as a deficiency of innovation, infrastructure constraints, regulatory worries, budgetary constraints, and issues with productivity.

### solutions for developing MSMEs in India:

**Capacity building and skilling** Governments and industries can work together to improve skills, productivity, and competitiveness. This can include programs that provide training, mentorship, and technical assistance.

**Support by private sector** The Small Industries Development Bank of India (SIDBI) has partnered with Google to offer financial assistance and social impact lending to micro enterprises.

**Digital MSME** This scheme aims to make MSMEs digitally empowered and encourage them to use digital tools, applications, and technologies in their production and business processes.

**Marketing challenge** The National Small Industries Corporation (NSIC) organizes workshops to train small enterprises in online and offline marketing of their products and services.

**Improve access to finance** The government has launched several schemes such as the Pradhan Mantri Mudra Yojana and the Credit Guarantee Fund Trust for Micro and Small Enterprises, aimed at providing affordable credit to MSMEs.



**Securitization financing** Banks and financial institutions can increase their use of securitization, which can improve the availability of credit for MSMEs.

**IT development programs** MSME owners can enroll themselves in government IT development programs to understand the latest technological developments in their sector.

**IT centers** The government can open IT centers in rural and underdeveloped areas to encourage MSME owners.

**Innovation** MSMEs can be encouraged to adopt indigenous technology research and development, including traditional occupation

#### 4. CONCLUSION

The micro, small, and medium-sized enterprise (SME) sector accounts for a significant share of the Indian economy. However, the main issue facing SMEs is the availability of adequate capital. The government understands that the SME sector is vital to the creation of new firms and employment opportunities for a significant section of the workforce, which is why it has launched several public policy initiatives aimed at enhancing the flow of credit to this sector. Different subcategories of the MSME sector have varying financial needs. In order to guarantee a smooth loan flow to the MSME sector, banking institutions must overcome their risk-averse mentality and adopt innovative financial management strategies. To maintain the economic momentum in the meantime, MSME units must also keep coming up with new ideas.

A notable approach to guarantee a sufficient flow of capital to the SME sector is the implementation of regulations mandating banks to provide a minimum of 40% of their loans to specific sectors, such as micro, small, and medium-sized businesses. Despite the fact that directed lending would boost the flow of capital to the SME sector, research like that done by Banerjee et al. (2003) indicates that SME enterprises have limited credit availability. The utilization of both "hard" data, like financial statistics, and "soft" data, such as vendor and other family member comments, is a major problem when lending to SMEs.

These data points are crucial for determining the business's credit risk. . The challenge for banks is to bridge the information asymmetry so as to take the appropriate lending decision so that the good firms are not financially constrained, and at the same time, cut down on exposures to bad credit risks. Over a period of time, there has been an increased emphasis on monitoring the account. So you take monthly information now where earlier it used to be quarterly. Everything is computerized so it is easy for the concern to give the information to Bank— details such as their actual sales against their projected sales, what have they done, etc. It is particularly suggested to emphasise one thing and that is regular contact with the customer. Traditionally we say, know your borrower like the back of your hand.

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