

## **ROLE OF MSMES IN ECONOMIC DEVELOPMENT IN INDIA**

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### **ABSTRACT**

The MSMEs are regarded as the driving force behind developing nations' social and economic advancement. This industry requires a lot of work, which makes it essential for a nation like India, which has a labor surplus and significant economic and social inequality. The MSMEs sector fosters entrepreneurship, offers a wealth of job prospects, decentralizes industrial activity, and facilitates the very low capital cost exploitation of locally accessible resources. However, the majority of the Indian economy is centered in rural areas, with the agriculture sector holding a dominant position. Despite the fact that the agricultural sector's contribution to GDP, employment, and the amount of land held by marginal and small farmers has decreased, the sector's function has expanded. His industry contributes to the low cost establishment of new industries in both rural and urban areas. The country's MSME sector has been crucial in absorbing a sizable portion of the labor force. This sector currently employs 497.73 lakh people in rural regions (324.88 lakh units), and 612.09 lakh people in urban areas (309 lakh units), throughout the nation. Additionally, this industry fosters an entrepreneurial spirit among the nation's socially disadvantaged populations. Thus, this study looks at how the MSME sector in India contributes to employment and entrepreneurial development to promote economic and social development.

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

### **1. INTRODUCTION**

Micro, Small and Medium Enterprises (MSMEs) have the potential to be key employment generators and help achieve the goal of taking the Indian economy to US\$ 5 trillion in the next five years. Most companies are now looking to create solutions with new and emerging technologies in this high-growth sector. The MSMEs sector supplies goods and services to large industries and is the backbone of exports from India. As the MSME full form suggests, it covers different types of enterprises based on their size - micro, small and medium. India has more than nine crore MSMEs, accounting for nearly 40% of the exports from India.

The pandemic has pushed MSMEs to digitize. Innovative FinTech solutions can be the key to taking MSMEs to the next level and help India become a global economic powerhouse.

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

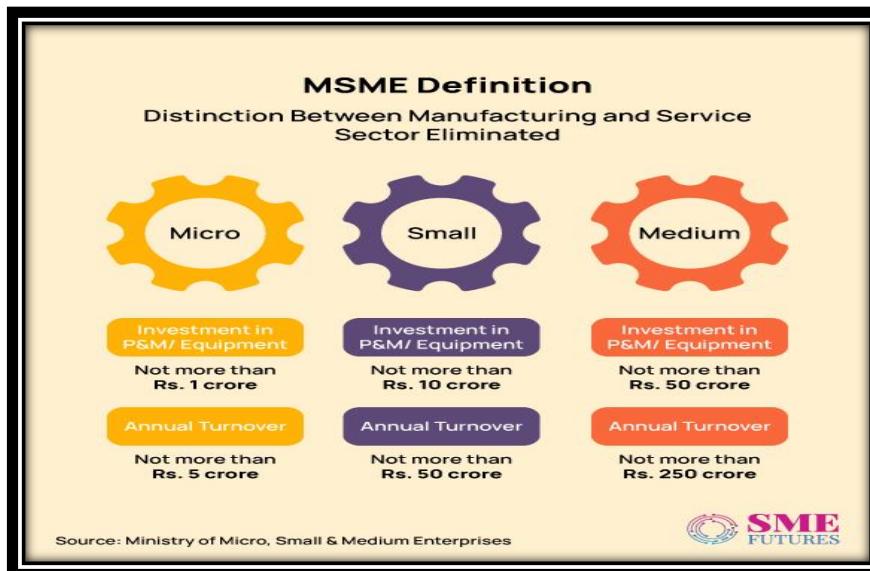
Classification based on the Composite MSME Criteria and Limits or MSME definition 2022 - Investment in Plant and Machinery/Equipment and Annual Turnover - are as follows:

MSME Classification	Enterprises in manufacturing and Services Segments
Micro	Investment: Less than INR 1 Crore Turnover: Less than INR 5 Crores

Small	Investment: Should not exceed INR 10 Crores Turnover: Should not exceed INR 50 Crores
Medium	Investment: Should not exceed INR 50 Crores Turnover: Should not exceed INR 250 Crores

#### 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.



#### Objectives-

1. To know the policy support and opportunities for MSMEs in India
2. To examine the growth and contribution of MSMEs in India
- 3 To suggest some Remedies to various challenges faced by MSMEs in India.

**Methodology** For this research paper data has been collected from secondary sources it includes online websites, daily newspapers Wikipedia journals and articles online published also electronic media from relevant literature.

#### 2. 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 SMEs 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 .

#### Benefits of Udyam registration for businesses

- 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.

#### Key Factors Promoting the Growth MSMEs 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.

#### Unique challenges and opportunities for MSMEs

**Financial difficulties:** MSMEs and smaller enterprises have consistently had difficulty obtaining financing. These businesses are frequently forced to rely on their own resources due to the traditional banks' limited ability to provide timely financing. Even larger businesses have trouble getting cheaper loans, which limits their ability to develop.

**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 frequently struggle with productivity, particularly in comparison to larger businesses. Despite their exceptional cost-efficiency and ability to produce large quantities at cheap costs, their operations' scale and margin constraints may restrict their overall output. In some industries, this becomes a disadvantage when competing.

**Lack of innovation:** One major obstacle facing Indian MSMEs is their lack of innovation. These businesses are unable to implement the most recent tools and technologies that are common in industries like call centers and e-commerce because of outdated technology and a lack of entrepreneurs. This lack of innovation limits the sector's potential for expansion and adds to low productivity levels. MSMEs are an essential component of the Indian business environment because they promote entrepreneurship, stimulate economic growth, and generate job opportunities. These businesses also confront some particular difficulties, such as lack of innovation, infrastructure limits, regulatory problems, financial constraints, and productivity issues.

### **The Indian MSMEs Sector**

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the growth of India's economy.  
MSMEs are the drive force for the growth engine of the Indian economy.



51 million  
SMEs across the  
country



Generate  
employment for 120  
million people



Contribute 38%  
of the GDP



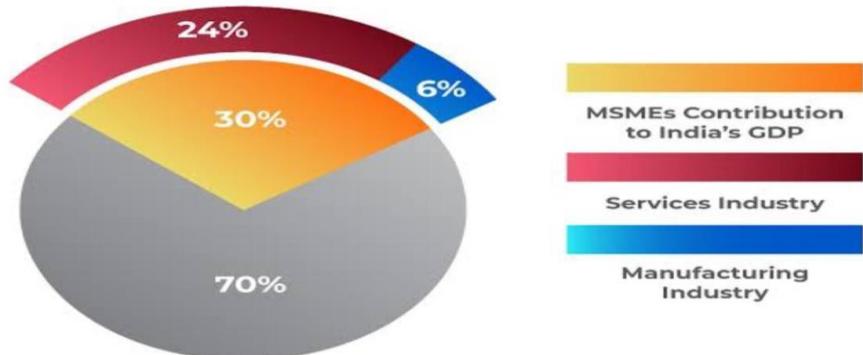
Account for 40%  
of the Exports



Registered a  
growth of around  
20% in 2015-16

Service Sector	
<b>Enterprises</b>	<b>Investment in Equipments</b>
Micro Enterprises	Does not exceed 10 lakh rupees
Small Enterprises	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 crore rupees

## Contribution of MSMEs to India's GDP



Source: PIB, Ministry of MSMEs



(Source:<https://samajho.com/upsc/upsc-daily-editorial-analysis-pain-to-the-fore-msmes-non-performing-assets-emergency-credit-line-guarantee-scheme-9th-september-2022/>)

### 3. CONCLUSION

A substantial portion of the Indian economy is made up of the micro, small, and medium-sized firm (SME) sector. SMEs, however, are primarily concerned about the availability of sufficient funding. The government has implemented a number of public policy initiatives to improve the flow of credit to the SME sector because it recognizes the critical role that this sector plays in starting new businesses and giving jobs to a sizable portion of the workforce. Within the MSME sector, different subcategories have different funding requirements. To ensure a seamless flow of credit to the MSME sector, banking bodies really need to get over their risk-averse mindset and develop creative financial management techniques. Meanwhile, MSME units too need to continue innovating to sustain the growth traction. One of the prominent measures used to ensure adequate flow of funds to the SME sector is through regulation requiring banks to provide at least 40% of loans to targeted areas which include the micro, small and medium enterprises. Although directed lending would increase the flow of funds to the SME sector, studies such as Banerjee et al. (2003) suggest that SME firms are credit constrained. One of the significant issues in lending to SMEs is the use of both 'hard' data such as financial information, as well as 'soft' data such as feedback from vendors and other family members, which become important inputs towards understanding the credit risk of the business. 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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