

THE ROLE OF MSMES SECTOR IN IMPROVING THE INDIAN ECONOMY

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ABSTRACT

The Micro, Small & Medium Enterprises (MSMEs) have been making a substantial impact on the growth of entrepreneurial activities through innovative business practices. These enterprises are expanding their reach across different sectors of the economy, offering a wide variety of products and services to satisfy both domestic and international market demands. In India, MSMEs are essential by providing numerous job opportunities at a lower capital investment compared to larger industries, while also fostering industrial growth in rural and underdeveloped regions. This, among other things, helps to reduce regional disparities and ensure a fairer distribution of national income and wealth. The MSME sector is responsible for 40 to 50 percent of India's overall exports. Furthermore, this sector contributes an average of 30% to India's gross domestic product (GDP). This article emphasizes the vital role and performance of various sectors within the MSME framework in India.

Keywords: Estimated MSME, national income and wealth, reduce regional disparities, job opportunities.

1. INTRODUCTION

The Micro, Small, and Medium Enterprises (MSME) sector has developed into a notably vibrant and energetic component of the Indian economy over the past fifty years. It plays a crucial role in the country's economic and social progress by encouraging entrepreneurship and creating numerous employment opportunities with relatively low capital investment, second only to agriculture. MSMEs serve as supportive units to larger industries, making a substantial contribution to the inclusive industrial advancement of the nation. This sector is expanding its reach across various economic fields, offering a wide array of products and services to satisfy both domestic and international market demands. The Ministry of Micro, Small & Medium Enterprises envisions a thriving MSME sector by fostering growth and development within the sector, which includes Khadi, Village, and Coir Industries, through collaboration with relevant Ministries/Departments, State Governments, and other stakeholders, by providing assistance to existing businesses, embracing innovative technologies, and promoting the establishment of new ventures. Micro, Small, and Medium Enterprises (MSMEs) serve as the foundation of India's economic framework, playing a crucial role in the nation's progress and development. These enterprises are vital for job creation, industrial output, and exports, making them indispensable to India's economic structure. Established under the Micro, Small & Medium Enterprises Development (MSMED) Act of 2006, MSMEs have gained increasing importance over time. In acknowledgment of their value, the Government of India has introduced various initiatives to support and enhance the MSME sector. One such initiative was the update of the criteria for MSME classification, which took effect on July 1, 2020. This update was designed to expand the range of businesses eligible for MSME status and the related government programs. In this detailed article, we will thoroughly explore the realm of MSMEs in India, examining their classification, functions, advantages, and the essential role they play in the country's economic growth. We will also look into the registration process, government programs, and the obstacles encountered by this sector.

Objectives

1. To evaluate the overall growth and developments in the MSMEs sectors in India
2. To find key challenges and solutions faced by the MSMEs sector.

2. RESEARCH METHODOLOGY

This paper is based on the secondary data extracted from reports of ministry of MSME, khadi and village industries commission, coir board, silk board and various research papers related to MSME. The Compound Annual Growth Rate (CAGR) of employment generation, export contribution and job creation has been calculated to analyse the growth of MSME sector. To calculate, green jobs in MSME sector three sectors has been taken into consideration i.e. Khadi and village industry, coir industry and sericulture industry.

MSME - The Backbone of Indian Economy: MSME has a crucial role to play in equitable development of India. According to the reports generated annually by the Ministry of MSME presents that 45% of the total Exports of the country are assisted by the sector, and are manufacturing more than 6000 quality products, which indicates immense opportunities for growth and venturing its support in different sectors. The report also indicates that most of the MSMEs are unregistered, on the whole there are 1.6 million registered MSME in India. According to the report MSME are

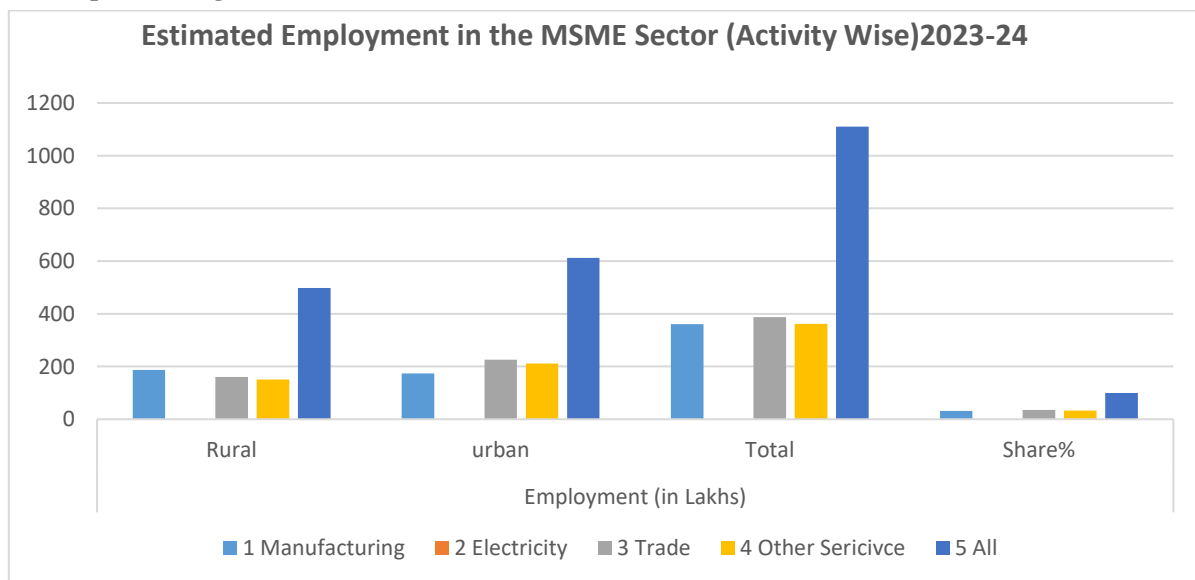
dominated by very small scale enterprises constituting 94.9 and the remaining 4.9 percent by small scale firms. Distribution of registered enterprises in urban areas account to nearly 8.57 lakhs of total active enterprises which occupy a share of 54.77%, whereas rural areas account to 7.07 lakh (45.23% of the working enterprises). Hence, it is contributing towards a laudable proportion for the equitable progress of Indian economy. According to the statistics generated on the basis of activity for registered firms, it is observed that 67.1 percent is contributed by manufacturing units, 16.8 percent service units and 32.9 percent by service side. The statistics for unregistered firms reveals that 69.80% is contributed by services, whereas 30.20% of the enterprises were involved in the manufacturing activities. From the following diagram we can see the distribution of 6000 units of MSME into their respective sectors.

Employment of Opportunities through MSMEs: According to various economic surveys organized, MSMEs are providing good employment opportunities to youth. The good growth of MSME sector is making backward and forward linkages strong inviting more investments in this sector. As per the annual report of Ministry of MSMEs there were near 362 lakhs enterprises in providing around 805 lakhs employment and it has increased to 510.57 lakhs enterprises 1,171.323 lakhs employees in the 2022=23 and increase of 55.5% in employment and 48 % in number working enterprises. This increase has clearly indicates the significant contribution of MSMEs in creating employment opportunities.

Estimated Employment in the MSME Sector (Activity Wise) 2023-24

| Sr.No. | Broad Activity Category | Employment (in Lakhs) | | | |
|--------|-------------------------|-----------------------|--------|---------|--------|
| | | Rural | Urban | Total | Share% |
| 1 | Manufacturing | 186.56 | 173.86 | 360.41 | 32 |
| 2 | Electricity | 0.06 | 0.02 | 0.07 | 0 |
| 3 | Trade | 160.64 | 226.54 | 387.18 | 35 |
| 4 | Other Services | 150.53 | 211.69 | 362.22 | 33 |
| 5 | All | 497.78 | 612.10 | 1109.89 | 100 |

Source <https://msme.gov.in/sites/default/files/FINALMSMEANNUALREPORT2023-24>



The table provides an overview of employment distribution across different broad activity categories in rural and urban areas in India, along with their total contribution to overall employment and their percentage share.:

Manufacturing: Employment (in lakhs): 186.56 (rural) and 173.86 (urban), totalling 360.41 lakhs.**Share:** 32%.

Electricity: Employment (in lakhs): 0.06 (rural) and 0.02 (urban), totalling 0.07 lakhs.

Share: 0%.

Trade: Employment (in lakhs): 160.64 (rural) and 226.54 (urban), totalling 387.18 lakhs. **Share:** 35%.

Interpretation: Trade is the largest employment category, highlighting the prominence of commerce in the economy. Urban areas dominate this sector due to the concentration of wholesale, retail, and e-commerce activities. The significant rural contribution reflects the presence of local markets and small-scale trading networks.

Other Services: Employment (in lakhs): 150.53 (rural) and 211.69 (urban), totaling 362.22 lakhs.**Share:** 33%.

Overall Employment (in lakhs): 497.78 (rural) and 612.10 (urban), totaling 1109.89 lakhs. **Share:** 100%.

The trade sector is the largest contributor to employment, driven by robust commerce and market activities. Manufacturing and "Other Services" are also significant, collectively contributing 65% of employment. The negligible share of electricity indicates a need for investment in employment generation within this sector. Urban areas have a marginally higher share in employment due to industrialization and service-sector dominance



(Source <https://smefutures.com/empowering-indias-economic-growth-unravelling-the-significance-of-msmes/>)

Classification of MSMEs MSMEs were classified based on their investment in plant and machinery (for manufacturing enterprises) or equipment (for service enterprises).

| Sr no. | Classification | Manufacturing & Service Sector (No distinction) | |
|--------|--------------------|---|---------------------|
| | | Investment in Plant & Machinery | Turnover Limits |
| 1 | Micro Enterprises | Less than 1 Crore | Less than 5 Crore |
| 2 | Small Enterprises | Less than 10 Crore | Less than 50 Crore |
| 3 | Medium Enterprises | Less than 20 Crore | Less than 100 Crore |

Government Initiatives Have Supported MSME Growth in India

To support and foster MSME, the Ministry of MSME has launched and implemented various schemes offering credit support, new enterprise development, formalisation, technological assistance, infrastructural development, skill development and training, and market assistance to MSMEs through initiatives like:

- Udyam Registration Portal** The government notified composite criteria for classifying an enterprise as micro, small, and medium based on investment and turnover. To ensure conformity to the new criteria and enhance the ease of doing business, the government launched the Udyam Portal to facilitate the permanent registration of MSMEs. There is no registration fee, and an enterprise is issued a digital certificate based on self-declaration. The Udyam certificate enables MSMEs to access several government initiatives such as:
 - Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** The CGTMSE, operational under the Government of India and the Small Industries Development Bank of India (SIDBI), offers credit guarantees to help MSMEs access bank credit without the hassles of crushing collaterals or third-party guarantees. MSMEs can access collateral-free loans up to INR 5 Cr, with a guaranteed coverage of up to 85% for multiple loan categories under CGTMSE. The scheme has covered over 67 lakh beneficiaries in the first 22 years of its existence and has had a positive impact on six major areas in the MSE sector, viz., technology up gradation, skill degradation, market development, sustainability of the scheme, economic impact, and social impact. During January-November 2023, 12.50 lakh guarantees were approved, amounting to INR 1.46 Lakh Cr.
 - The Prime Minister Employment Generation Programme (PMEGP)** Established to create employment opportunities for MSMEs in India, the PMEGP provides loans and working capital — INR 25 Lakh for manufacturing and INR 10 Lakh for service sector MSMEs — through bank disbursal. The scheme is implemented at the national level by the Khadi and Village Industries Commission (KVIC) and at the state and district levels by

State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs), and banks. Since its inception in 2008 and until 30 November 2023, over 9.29 Lakh micro-enterprises have been supported across the country with the disbursement of a Margin Money subsidy of INR 34,517 Cr, generating a total estimated employment for around 78.36 Lakh persons.

3. **Raising and Accelerating MSME Performance (RAMP)** Launched in July 2022, under the aegis of the Ministry of MSME, the World Bank-assisted RAMP scheme aims to improve the access of MSMEs to both the global market and credit. RAMP aims to foster the sector by accelerating Centre-State collaboration in MSME promotion and development, Enhancing the effectiveness of existing Ministry of MSME schemes for technology upgradation, Strengthening the Receivable Financing Market for MSMEs, Enhancing the effectiveness of Credit Guarantee Trust for Micro & Small Enterprises (CGTMSE), and promoting guarantee for greening initiatives of MSEs, and women-owned MSEs, and Reducing the incidence of delayed payments to MSEs. An outlay of INR 6000 Cr has been assigned for five years to ensure the implementation. The scheme aims to benefit over 5.5 Lakh MSMEs.
4. **Impact of digitalisation** The MSME area skilled large boom during the last decades, in spite of restrained use of generation. It has capability to scale up thru powerful utilisation of generation and implementation of e-markets and digitalisation in production processes. Various steps taken through the authorities and MSMEs include: the Ministry of MSME has determined to digitalise the complete device of management to make it greater transparent, time-sure and result-oriented. The ministry invested Rs. 2 hundred crores (US\$ 26.5 million) to assemble 20 generation centres and Rs. 20 crores (US\$ 2.65 million) for a hundred extension centres. •The area these days witnessed boom because of extended net penetration and customer's version to virtual payments, fuelled through B2C e-trade players.

Importance of MSME in the Economic Development of India

1. **Employment Generation** MSMEs act as important sources of employment, especially in economically deprived areas. They offer opportunities for both skilled and unskilled workers, thus helping to create jobs and lower unemployment rates.
2. **Promotion of Entrepreneurship** MSMEs encourage entrepreneurship by offering a platform for individuals to establish and expand their businesses with relatively minimal investment requirements. They promote innovation and creativity, stimulating economic vitality and nurturing an entrepreneurial culture within society.
3. **Regional Development** MSMEs are vital for regional development by setting up businesses in remote or underdeveloped locations, consequently fostering balanced economic growth throughout various regions. They decentralise economic activities, diminishing the concentration of industries in urban areas and distributing economic opportunities to rural and semi-urban locales.
4. **Export Promotion** MSMEs play a significant role in export promotion by producing a diverse array of goods and services for global markets. They often focus on niche products and meet specific market needs, boosting the country's export competitiveness and expanding its international market presence.
5. **Diversification** MSMEs enhance economic diversification by operating in multiple sectors such as manufacturing, services, agribusiness, and technology. They lessen dependence on a single industry or sector, thereby improving the economy's resilience to external shocks and market variations.
6. **Innovation** MSMEs are centres of innovation, continually creating new products, processes, and technologies to maintain market competitiveness. They propel technological progress, increase productivity, and enable the adoption of innovative methods across industries, contributing to comprehensive economic growth and progress.
7. **Reduction of Income Disparities** MSMEs are instrumental in narrowing income disparities by offering opportunities for wealth generation and income development among various segments of society.
8. **Support for Large Industries** MSMEs frequently act as suppliers and subcontractors to larger industries, delivering essential goods, components, and services. They add to the value chain of large industries by providing specialised products, tailored solutions, and cost-efficient services.

Future prospects for MSMEs are key to the US\$ 5 trillion Indian economy. However, for India to grow rapidly in the next decade, MSMEs must mature into large-scale corporations. India needs to triple the number of large-scale businesses, with over 1,000 mid-range businesses currently scaling up. Budget allocation for the MSME sector in FY22 more than doubled to Rs. 15,700 crores (US\$ 2.14 billion) from Rs. 7,572 crores (US\$1.03 billion) in FY21. Financial support from state and central governments and favourable policies can push India into becoming a high-growth manufacturing-based economy. India can meet its goal of achieving sustainable fiscal and socio-economic growth through a clear vision and concrete plans involving MSMEs.

Major Challenges Faced by the MSME Sector

Limited Skilled Workforce: Many MSMEs face difficulties in finding workers with the required skills to operate advanced machinery or adopt new technologies, leading to inefficiencies, production delays, and lower product quality.

Access to Finance: Limited availability of credit and financial resources restricts MSMEs' ability to invest in growth and expand their operations.

Competition: MSMEs face intense competition both domestically and internationally, making it challenging to sustain market share and profitability.

Technology Adoption: Integrating modern technologies is a significant hurdle for MSMEs due to resource limitations and technological barriers.

Regulatory Burden: Complex regulatory requirements and bureaucratic processes create administrative difficulties and compliance challenges for MSMEs.

Vulnerability to Emergencies: MSMEs are highly susceptible to disruptions caused by emergencies such as natural disasters and economic downturns, which can jeopardize their operations and sustainability.

Challenges in Accessing Credit: Despite government initiatives like Mudra loans, securing financing remains a major obstacle for MSMEs. Traditional banks often consider them high-risk borrowers due to insufficient credit history and lack of collateral.

Delayed Payments: Delayed payments from larger enterprises or government agencies significantly strain the working capital and cash flow of MSMEs. These delays can hinder their operations and threaten business continuity, as smaller suppliers or contractors struggle financially when payments for their goods or services are not received on time.

Limited Branding and Market Reach: MSMEs often lack the necessary resources and expertise for effective marketing and brand-building, making it difficult to compete with larger or more established businesses, particularly in the online marketplace. For instance, a small food processing unit in a rural area may face challenges such as poor road infrastructure for transporting products or frequent production disruptions due to unreliable power supply.

To develop the MSME sector in India key suggestions

- **Credit Guarantee Schemes:** Expand and simplify credit guarantee funds to mitigate lending risks for banks, enabling easier access to loans for MSMEs.
- **Microfinance Institutions:** Promote the growth of microfinance institutions to cater to the needs of very small enterprises.
- **Alternative Funding:** Encourage the use of crowd funding, invoice discounting, and peer-to-peer lending platforms.
- **Digitalization:** Promote digital adoption through initiatives like e-commerce platforms, cloud computing, and ERP systems to improve efficiency and market reach.
- **Skill Development:** Establish robust skill development programs tailored to MSME needs, focusing on technical skills, quality control, and entrepreneurship training.
- **Public Procurement:** Implement strict public procurement policies that prioritize MSME participation and provide purchase preference.
- **Trade Fairs and Exhibitions:** Facilitate participation in international trade shows to connect MSMEs with global markets.
- **B2B Platforms:** Develop online business-to-business platforms to connect MSMEs with larger businesses and potential customers.
- **Streamlined Processes:** Simplify regulatory procedures related to permits, licenses, and compliance checks to reduce administrative burdens on MSMEs.
- **Single Window System:** Implement a single-window system for online submission of regulatory documents and approvals.
- **Compliance Assistance:** Provide support and guidance to MSMEs on regulatory compliance through dedicated advisory services.
- **Incubation Centres:** Establish and support technology business incubators to nurture start-ups and promote innovation within the MSME sector.
- **Research and Development:** Encourage collaboration between MSMEs and research institutions to develop new technologies and products.
- **Intellectual Property Protection:** Raise awareness about intellectual property rights and facilitate the process of patent registration for MSMEs.

- **Targeted Approach:** Tailor policies and programs to the specific needs of different MSME sub-sectors based on region and industry.
- **Capacity Building:** Provide training and mentorship programs to enhance the management and operational capabilities of MSME owners and employees.
- **Collaboration:** Foster partnerships between government agencies, financial institutions, industry associations, and academia to create a robust support ecosystem for MSMEs.
- **E-Courts for Dispute Resolution:** Often the National Company Law Tribunal (NCLT) proceedings lead to drainage of precious financial resources for MSME sector.

3. CONCLUSION

MSMEs play a crucial role in the sustainable growth of India's economy. They significantly contribute to GDP growth, industrial output, and employment generation, making them an indispensable part of the nation's economic framework. Various initiatives and regulatory reforms aimed at supporting MSMEs are vital steps toward unlocking untapped talent, resources, and growth potential. As the backbone of the Indian economy, MSMEs drive GDP growth, create jobs, and boost export revenues. Their role in fostering innovation, promoting inclusive development, and uplifting rural and semi-urban economies underscores their importance in India's economic landscape. With their widespread presence and adaptability, MSMEs act as a bridge between large industries and grassroots-level enterprises, fostering a balanced industrial ecosystem. By adopting digital technologies, embracing sustainable practices, and scaling their operations, MSMEs can significantly enhance their contribution to India's vision of becoming a \$5 trillion economy. However, to fully harness their potential, it is essential to provide robust policy support, ensure better access to financing, enhance skill development, and strengthen market linkages. Supporting this sector is not only an economic imperative but also a step toward achieving equitable and inclusive growth, positioning MSMEs as a cornerstone of India's economic progress and global competitiveness. There should not be two opinions about the priority that SME policies deserve for achieving the socio-economic goal of employment growth and social justice, along with the individual "aspirations".

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