

ROLE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIAN ECONOMY

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are vital for the economic progress of any nation, playing a crucial role, especially in developing countries. They foster economic activity, create employment, and significantly contribute to poverty alleviation. After agriculture, the MSME sector is the second-largest employer in India. Over time, the Indian MSME sector has evolved into a dynamic and vibrant part of the economy. MSMEs not only generate substantial employment with minimal capital investment compared to large industries but also promote industrialization in rural areas, contributing to the development of the non-farm sector. This sector serves as a catalyst for inclusive growth, empowering the most vulnerable and marginalized communities. The primary objectives of this paper are to examine the growth in the number of MSME units, their contribution to GDP, employment, and exports in India. Additionally, the paper aims to analyze the relationship between MSME sector growth and the achievement of the Sustainable Development Goals (SDGs) 2030, assess the MSME sector's role in creating green jobs in India, and highlight the challenges faced by the MSME sector.

Keywords: Micro, Small and Medium Enterprises, Green Jobs, Sustainable Development Goals, Economic Development, Inclusive Growth.

1. INTRODUCTION

The MSME sector of India is a significant driving component for the development of Indian economy. These Micro, Small and Medium Enterprises help in lowering the unequal income dissemination among the individuals by the method of providing more employment opportunities and industrialization of these areas (Syal, 2015). These MSMEs contribute undoubtedly in the growth of Indian economy through export and domestic production, operational adaptability, and technology and innovation oriented undertakings etc. The contributions made by these MSMEs in the fair development of the Indian economy are huge. 55% of the total companies operate in the agrarian areas encourage comprehensive development and regional equity. 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. The concept of Make-in-India was propelled with a great deal of prosper to inculcate new strength in the manufacturing sector (Vibhuti and Barki, 2016). "Make in India" is an endeavor to bridge the gap between the Indian and Chinese market. This initiative needs dynamic support of all partners from all the corners of the nation. Developing skills and improving competencies for giving input support is very significant for happening of the very strong-willed initiative of Indian Government, which is guaranteed at grass root level from association of MSMEs (Gade, 2013). The Ministry of MSMEs of Indian Government has the primary responsibility of framing and successful execution of policies, plans, projects and schemes for the growth and promotion of these MSMEs. Primarily, the state government has the obligation of growth and promotion of these MSMEs and their endeavors are strengthened by the central government (Kumar, 2017). The main role of the MSME Ministry and its organizations is to help the states in their continuous efforts to strengthen employment, entrepreneurship and livelihood opportunities and raise the competitiveness of these MSMEs in the changing economic dimensions of the country (Srinivas, 2013). The MSMEs have been providing significantly contribution to the development of entrepreneurial efforts through business advancements (Drishti, 2020). The Micro Small Medium Enterprises are expanding their domain across various sectors of Indian economy, offering different range of services as well as products to satisfy needs of domestic and

worldwide markets. According to the data accessible with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector has contributed in Gross Value Added (GVA) in the year 2015-2016 is 32.03% in India while MSME sector contribution in Gross Domestic Product (GDP) during the year 2015-2016 is 29.20% (Ministry of Micro, Small and Medium Enterprises, 2019).

2. RESEARCH OBJECTIVES

- To investigate the expansion of the MSME sector, its contribution to the GDP, employment creation, and total exports in the Indian economy.
- To analyse the relationship between growth of MSME sector and fulfilment of Sustainable Development Goals (SDGs) 2030.
- To highlight the problems faced by Indian MSME sector.

3. RESEARCH METHODOLOGY

This paper is based on the secondary data extracted from reports of Reserve Bank of India (RBI), ministry of MSME, and various research papers related to MSME. The Compound Annual Growth Rate (CAGR) of employment generation, export contribution and green job creation has been calculated to analyse the growth of MSME sector. Broadly, the paper deals with performance of MSME sector, SDGs and MSME sector with problems faced by MSME sector and suggestions for development of MSME Sector in India.

4. REVIEW OF LITERATURE

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)** 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.

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.

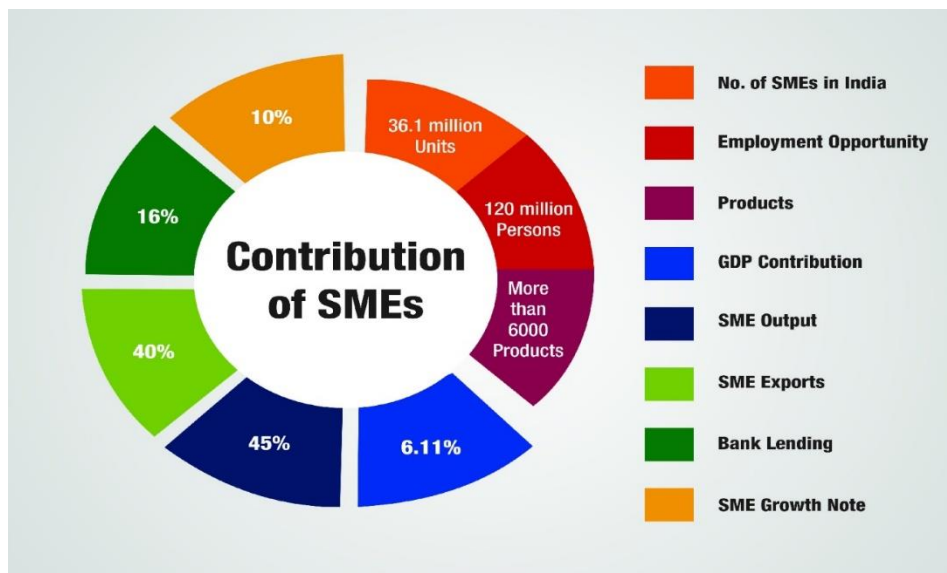
Garg, et al (2012) highlights the growth and contribution of MSME sector in post reform India. The study confirms that the significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to gross domestic product (GDP), employment and exports in Indian economy. The study was exclusively based on secondary data which has been collected from the various issues of Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI) respectively. The study considers the time period from 2001-02 to 2010-11. To examine the performance of MSMEs in India, the available data have been processed and presented in suitable tables. Besides, the growth of MSMEs is judged by Compound Annual Growth Rate (CAGR). And CAGR is computed through Ordinary Least Square (OLS) technique by fitting the exponential function to the available data. Results show that we should encourage MSMEs to take proper care of Indian economy with concrete plan of action and its honest implementation. 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

(Source <https://prepp.in/news/e-492-msme-sector-indian-economy-notes>)

SPECIAL MEASURES UNDER AATMANIRBHAR BHARAT ABHIYAAN

Following the COVID-19 pandemic, the Prime Minister promptly acknowledged the contribution of MSMEs to the Nation's development. Therefore, MSMEs played a significant role in the declarations made as part of the Aatmanirbhar Bharat Abhiyaan. In this package, the MSME sector has received a significant allocation and has also been given top priority in implementing measures to boost the economy. Different announcements have been made under the Package to offer immediate relief to the MSME sector. In line with the Government of India's strong priority to empower MSMEs in the country, the Ministry of MSME is concentrating on every aspect. Two new announcements were made under the Aatmanirbhar Bharat Package to improve access to finance for MSMEs: a Rs 20,000 crores Subordinate Debt for Stressed MSMEs and a Credit Guarantee Scheme for Subordinate Debt (CGSSD) for Stressed MSMEs, which was launched on June 24, 2020. The scheme aims to revive operational MSMEs with stressed accounts by infusing funds and the Government of India will contribute Rs 4,000 crore towards creating a corpus for extending guarantees to loans. The implementation is through Credit Guarantee Fund Trust for Micro and Small Enterprise (CGTMSE) and the target is to guarantee loans worth Rs 20,000 crore.



(Source: <https://msme-and-its-csr-practices.blogspot.com/>)

The opportunities of growth in the MSMEs sector are enormous due to the following factors:

- Less capital intensive.
- Most important employment generating sector.
- It provides 50% of private sector employment.
- Effective tool for promotion of balanced regional development.
- It is extensively promoted and supported by the Government.
- Finance and subsidies are provided by the government.
- Produced goods are purchased by the Government.
- 40% exports in India are through MSME channel.
- Procurement of machinery and raw material.
- Globalization has offered new opportunities for the MSMEs.
- Trade fairs and exhibitions played a vital role in the economic growth of the countries.

Sustainable Development Goals (SDG) and Micro, Small and Medium Enterprises (MSME)

Small and medium-sized companies are important actors in promoting sustainable development in economies. This is due to their ability to add value to society through solutions that respond to a market's needs and problems, which are not already covered by other companies, as well as for their potential to create quality jobs that allow citizens access to better living conditions. However, these two basic conditions of a business activity are only the starting point for the development of strategies that let them approach their real potential in terms of economic, social and environmental impact. In this regard, and provided that it conforms to a country's legal provisions, business activity in itself has an impact on the Sustainable Development Goals (SDGs) promoted by the United Nations—particularly Goal 8, related to decent work and economic growth. By promoting job creation and providing the best possible remuneration to its employees, the company can also have an impact on Goal 1, which focuses on ending poverty. Depending on the

nature of the business model and the practices adopted by each organization, it is also possible to identify favorable impacts to Goal 9 (industry, innovation and infrastructure) and Goal 12 (responsible consumption and production). As companies adopt more sophisticated business purposes and practices attuned to specific social or environmental needs, impacts related to other SDGs may also be added.

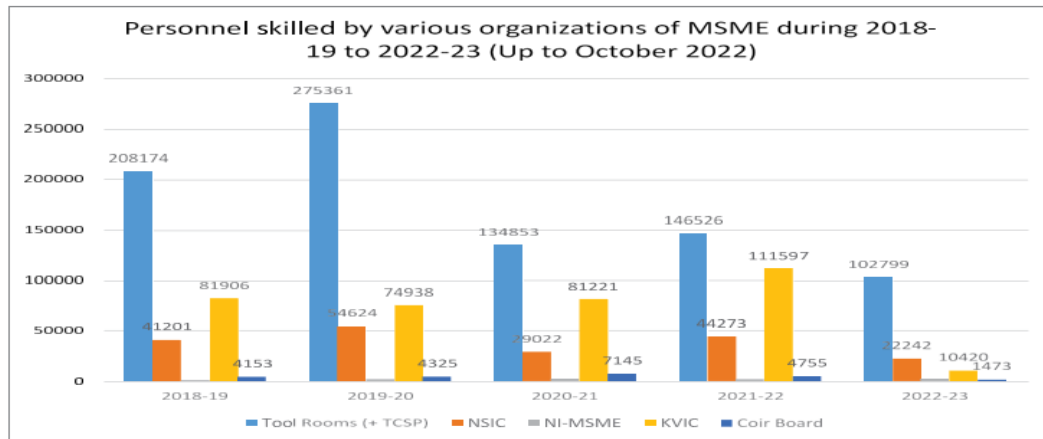
By way of illustration, agribusinesses may contribute to Goal 15 (“Life on land”) by adopting practices such as:

- Implementing environmental management systems that prevent and minimize the activities’ impact on terrestrial ecosystems and biodiversity.
- Land rehabilitation, protection and restoration of habitat in areas of activity.
- Inclusion of inputs and materials that do not pose risks to endangered animal or plant species.
- Research, development and implementation of technologies and processes that contribute to terrestrial habitat preservation. With regard to the social dimension of sustainability, companies could also make progress on Goal 5 (gender equality) if they incorporate internal diversity policies that, for example, allow women to access job development opportunities on equivalent terms to men.
- Actions related to Goal 10 (reduced inequalities), may also be promoted by including vulnerable populations into the framework of opportunities created within the organization, as well as the value chain and products and services on offer. I

There is no doubt that SMEs have the potential to become the foundation of the domestic and global Sustainability agenda. In order to successfully integrate Sustainability principles and practices within the SME business culture, SMEs should understand the emerging opportunities and the relevance to them. In many cases, the message and narrative of the Sustainable Development Goals has not penetrated SMEs, and often SMEs are not aware of brave Sustainability decisions they already have been implementing. Research has pointed out that SMEs struggle to identify how they could use Sustainability as a force for growth and adapt to megatrends such as increased globalization, digitalization, the new industrial revolution, the changing nature of work and demographic changes. The recent 2018 SME Ministerial Conference paper reveals how domestic governments and international bodies can design policies and strategies for effective deployment, measurement and monitoring of Sustainability integration in micro firms, young, innovative and high-growth SMEs. Sustainability Knowledge Group contributed to a 2016 nation-wide project under the auspices of the Greek Institute of SMEs in which we realized that SMEs also depend on the vote of trust of citizens, private and third sector as they embark on a journey of discovery. Further work conducted under the local UAE International Society of Sustainability Professionals (ISSP) chapter demonstrated that for the Sustainability agenda to be attained in the next eleven years, communities, countries and regions need to bring SMEs at the center of the business stage and assure their growth potential is realized.

Sl. No.	Name of the Scheme	Benefit Type	Total no. of beneficiaries (2022-23) (upto 31.12.2022)	Total Expenditure (Rs. crores) (2022-23) (upto 31.12.2022)
1	ATI Scheme (Training Component)	In Kind	1674	0.871
2	MPDA Grant to Khadi Institutions	Cash	86990	29.45
3	Coir Vikas Yojana	Cash	775	45.789
4	SFURTI SI	In Kind	2082765	384.509
5	Prime Ministers Employment Generation Programme (PMEGP)	Cash	46808	1505.61
6	Entrepreneurship and Skill Development Programme (ESDP)	In Kind	6312	2.55
7	International Co-operation (IC) Schemes	Cash	56	6.87

(Source MSME Annual Report 2022-23)

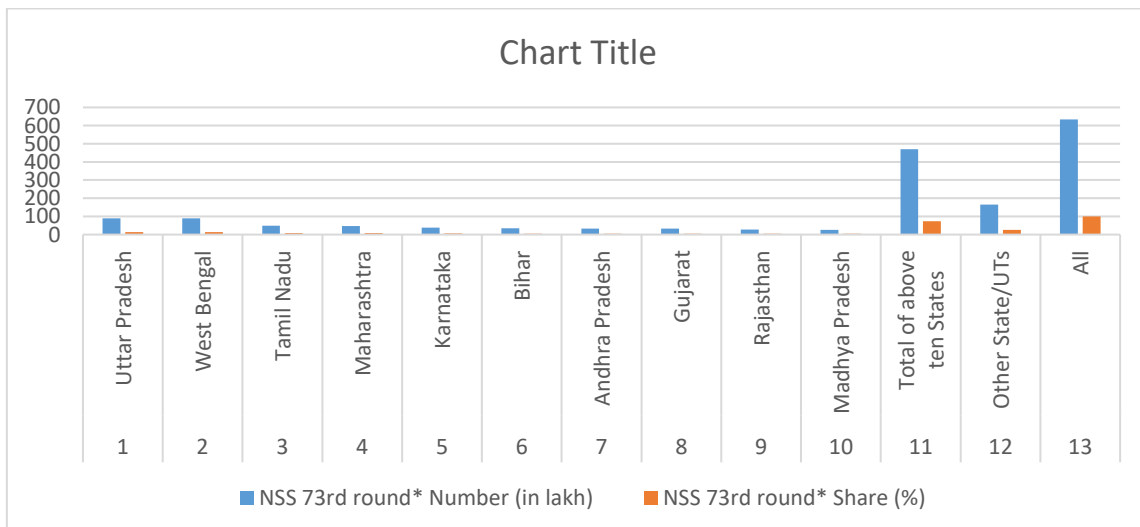


(Source MSME Annual Report 2022-23)

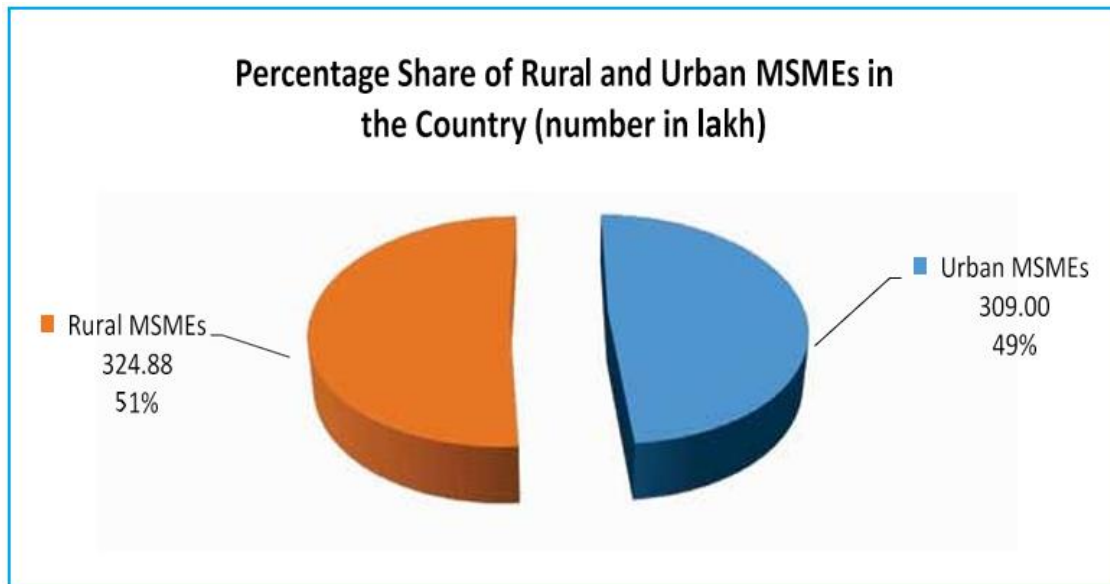
State-wise Distribution of enterprises

Sl. No.	State/UT(Union Territories)	NSS 73 rd round*	
		Number (in lakh)	Share (%)
1	Uttar Pradesh	89.99	14
2	West Bengal	88.67	14
3	Tamil Nadu	49.48	8
4	Maharashtra	47.78	8
5	Karnataka	38.34	6
6	Bihar	34.46	5
7	Andhra Pradesh	33.87	5
8	Gujarat	33.16	5
9	Rajasthan	26.87	4
10	Madhya Pradesh	26.74	4
11	Total of above ten States	469.36	74
12	Other State/UTs	164.52	26
13	All	633.88	100

(Source MSME Annual Report 2022-23)



Source MSME Annual Report 2022-23)



Source MSME Annual Report 2022-23)

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.

Recent Government MSME Schemes and Policies in India

- **MSME Innovation Scheme:** The Indian government launched the MSME innovation scheme in March 2022 to foster innovation in the sector. Under this scheme, MSMEs can enjoy reimbursement of the cost of Intellectual Property Rights applications for new ideas and designs. The programme provides financial and other resources to MSMEs to encourage innovation.
- **CGTMSE:** The Credit Guarantee Trust Fund for Micro and Small Enterprises scheme provides financial assistance of up to ₹2 Core to new businesses.
- **CLCSS:** The Credit Linked Capital Subsidy Scheme provides capital subsidies to MSMEs operating in the khadi, village, and coir sectors. The subsidy allows these businesses to acquire technological innovation and up gradation.
- **ASPIRE:** ASPIRE, or A Scheme for Promotion of Innovation, Rural Industries, and Entrepreneurship, fosters innovation and entrepreneurship in rural and agricultural sectors by establishing advanced technology network.

Problems Faced by MSME Sector

Financial Constraints: MSMEs and smaller enterprises often encounter difficulties in securing financing. Traditional banks' limited capacity to provide timely financial assistance forces these businesses to rely predominantly on their own resources. Even larger enterprises face challenges in accessing affordable loans, which restricts their growth potential.

Infrastructure Limitations: Infrastructure is a crucial determinant of MSMEs' success. In India, where sectors like e-commerce and BPOs are thriving, a strong infrastructure is indispensable. However, inadequate infrastructure can hinder the expansion of MSMEs, limiting their ability to scale up operations and access wider markets.

Low Productivity: MSMEs frequently grapple with productivity issues, especially when compared to larger enterprises. Despite their cost-effectiveness and capability to produce goods at competitive prices, constraints related to scale and margins often limit their overall output. This becomes a significant disadvantage when competing in certain industries.

Innovation Gap: A notable challenge for Indian MSMEs is their limited innovation capabilities. Due to outdated technology and a scarcity of entrepreneurial spirit, these businesses struggle to adopt the latest tools and technologies prevalent in sectors like call centers and e-commerce. This lack of innovation constrains the sector's growth potential and contributes to low productivity levels.

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.

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.

5. CONCLUSION

A significant segment of the Indian economy is constituted by micro, small, and medium-sized enterprises (MSMEs). However, these enterprises are primarily concerned with the accessibility of adequate funding. Recognizing the vital role of the MSME sector in fostering new business ventures and providing employment to a substantial portion of the population, the government has introduced several public policy measures to enhance the credit flow to this sector. Different subcategories within the MSME sector have distinct funding requirements. To facilitate a smooth credit flow to MSMEs, banking institutions need to overcome their risk-averse approach and devise innovative financial management strategies. Concurrently, MSMEs should focus on continuous innovation to sustain their growth momentum. One of the key regulatory measures to ensure a sufficient flow of funds to the SME sector is the mandate for banks to allocate at least 40% of their loans to targeted areas, encompassing micro, small, and medium enterprises. However, despite directed lending aimed at increasing the credit flow to MSMEs, studies like the one by Banerjee et al. (2003) indicate that MSMEs face credit constraints. Lending to MSMEs presents challenges due to the utilization of both 'hard' data, such as financial records, and 'soft' data, including feedback from suppliers and family members. These inputs are crucial for assessing the credit risk associated with the business. The primary challenge for banks is to mitigate information asymmetry to make informed lending decisions, ensuring that viable businesses are not financially constrained while minimizing exposure to high credit risks. Over time, there has been a shift towards more frequent account monitoring, with monthly reporting replacing the previous quarterly system. With the digitization of processes, MSMEs can easily provide banks with relevant information, such as actual sales compared to projected sales and other performance metrics. Emphasizing regular customer engagement is crucial in this context, as the adage

goes, "know your borrower like the back of your hand. "To encourage private sector participation in MSME financing, various incentives should be offered, including tax concessions, a favorable business environment, improved infrastructure, and streamlined regulatory processes. Addressing the issue of delayed payments is also essential as it exacerbates liquidity problems for these enterprises. Often, buyers are not diligent about making timely payments, so incentivizing prompt payments and establishing an efficient mechanism to address grievances related to delayed payments are crucial steps to improve the financial health of MSMEs.

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